

CITY OF VANCOUVER, WASHINGTON

WATER AND SEWER REVENUE
REFUNDING BONDS, 2004

\$26,250,000

Bonds Dated: February 26, 2004
Opinion Dated: February 26, 2004

PRESTON GATES & ELLIS LLP

CITY OF VANCOUVER, WASHINGTON
WATER AND SEWER REVENUE REFUNDING BONDS, 2004
\$26,250,000

RECORD OF PROCEEDINGS

1. Certificate for Transcript
2. Incumbency Certificate
3. Certificate of the Mayor regarding the appointment of the City Clerk
4. Certified copy of the proceedings of the City Council last fixing the time, date and place of regular meetings of the City Council
5. Certificate regarding the official newspaper of the City
6. Certificate of the Treasurer setting forth all outstanding obligations of the City to which the revenues of the water and sewer system have been pledged
7. Copy of Ordinance No. M-3463 of the City authorizing the issuance of the 1999 Bonds
8. Certified copy of Ordinance No. M-3644 of the City authorizing the issuance and sale of the Bonds (the "Bond Ordinance")
9. Certified copy of the minutes of the January 26, 2004 City Council meeting showing the first reading of the Bond Ordinance
10. Certified copy of the minutes of the February 2, 2004 City Council meeting showing the second reading and passage of the Bond Ordinance
11. Affidavit of publication of the Bond Ordinance
12. Copy of Bond Purchase Contract between the City and Piper Jaffray & Co. dated February 4, 2004
13. Preliminary Official Statement
14. Official Statement
15. Closing Certificate
16. Signature Identification and Nonlitigation Certificate
17. Commitment of Financial Guaranty Insurance Company ("FGIC") for the municipal bond insurance policy

18. FGIC Bond Insurance Policy No. 04010068
19. Disclosure, No Default and Tax Certificate of FGIC
20. Opinion of FGIC Counsel regarding the Bond Insurance Policy
21. Escrow Verification Report
22. Escrow Deposit Agreement
23. Certificate of Escrow Agent
24. Arbitrage and Tax Certification and Underwriter Representations
25. Rating Letters
26. Blanket Issuer Letter of Representations to DTC
27. Certificate regarding Authentication, Registration and Delivery of the Bonds
28. Certificate of Authorization of Authorized Officer for the Bond Registrar
29. Copy of IRS Form 8038-G with affidavit of mailing
30. Bond Form 101, with transmittal letter
31. Certificates of Manual Signature
32. Specimen Bond
33. Receipt for the Bonds
34. Certificate of Payment and Delivery
35. Closing Memorandum
36. Opinion of Gottlieb, Fisher & Andrews, PLLC, counsel to the Underwriter
37. Defeasance Opinion of Preston Gates & Ellis LLP
38. Final approving legal opinion of Preston Gates & Ellis LLP with reliance letter to FGIC

ESCROW RESTRUCTURE DATED MAY 27, 2004

- 39. Redemption of SLGS Confirmation and Redemption Amounts for Escrow Restructure
- 40. First Amendment to Escrow Deposit Agreement dated May 27, 2004
- 41. Escrow Verification Report dated May 27, 2004
- 42. Closing Memorandum for Escrow Restructure
- 43. Legal opinion of Preston Gates & Ellis LLP


CERTIFICATE FOR TRANSCRIPT

I, PAUL LEWIS, City Clerk of the City of Vancouver, Washington (the "City"), DO
HEREBY CERTIFY that the within and attached documents are in each case true and correct
copies of the originals of such documents and that none of the ordinances, resolutions,
proceedings, statements or certificates contained herein has been repealed, rescinded or cancelled
and all of the officers last certified as holding City offices have continued to hold their respective
offices from such date to and including the date of this certificate.

DATED as of this 26th day of February, 2004.

CITY OF VANCOUVER, WASHINGTON

By

A handwritten signature in black ink, appearing to be 'Paul Lewis', is written over a horizontal line.

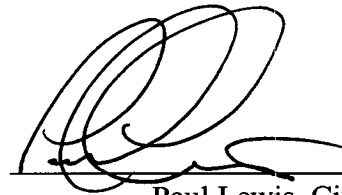
Paul Lewis, City Clerk

CERTIFICATE

I, PAUL LEWIS, City Clerk of the City of Vancouver, Washington, DO HEREBY CERTIFY that the present Vancouver City Council members and the expiration dates of their terms are as follows:

Council Member	Term Expires
Royce E. Pollard, Mayor	December 31, 2005
Jeanne Harris	December 31, 2005
Pat Jollota	December 31, 2005
Tim Leavitt	December 31, 2007
Larry Smith	December 31, 2007
Jeanne Stewart	December 31, 2005
Dan Tonkovich	December 31, 2007

Dated as of this 26th day of February, 2004.

A handwritten signature in black ink, appearing to be 'Paul Lewis', written over a horizontal line.

Paul Lewis, City Clerk
City of Vancouver, Washington

CERTIFICATE

I, ROYCE E. POLLARD, the duly elected Mayor of the City of Vancouver, Washington (the "City"), DO HEREBY CERTIFY that Paul Lewis is the duly appointed City Clerk of the City of Vancouver, Washington.

DATED as of this 26th day of February, 2004.

CITY OF VANCOUVER, WASHINGTON

By 
Royce E. Pollard, Mayor

CERTIFICATE

I, PAUL LEWIS, City Clerk of the City of Vancouver, Washington, DO HEREBY CERTIFY that the attached is a true and correct copy of Ordinance No. M-2923 showing the selection of the date, time, and place for regular meetings of the City Council as currently in effect.

DATED as of this 26th day of February, 2004.

CITY OF VANCOUVER, WASHINGTON

By  _____

Paul Lewis, City Clerk

0/10/94

RESOLUTION NO. M- 2923

940582

A RESOLUTION relating to the time and place for meetings of the City Council of the City of Vancouver and providing for regular City Council meetings to be held in City Hall each Monday; superseding Resolution M-2881.

BE IT RESOLVED BY THE CITY OF VANCOUVER:

Section 1. That regular meetings of the City Council of the City of Vancouver shall be held in Vancouver City Hall, 210 East 13th Street, Vancouver, Washington, on each Monday afternoon and evening of the first and third Monday of each month; provided, whenever a holiday shall fall on a Monday, then Council shall meet in regular session on Tuesday unless Council, at a previous meeting, shall by motion have provided that a meeting be held on some other day of such week.

Section 2. That times of Council meetings on each such Monday shall be as follows: At 4:00 p.m., or at such other time as Council has approved on a given date, Council shall convene in City Hall in the Council Chambers, or other place as shall have been posted in the lobby of City Hall; provided, in lieu of a Council meeting at such time, there may be a meeting or meetings of Council committees, with Council to convene as a body at 6:00 p.m., or such other times as it shall have provided by motion at a previous meeting.

Council ordinarily will adjourn for dinner from 6:00 p.m. to 7:00 p.m. on the first and third Monday of each month, and will reconvene in Council Chambers at 7:00 p.m. for all advertised public hearings, and for such other business as shall regularly have been placed on said agenda for such time.

All committee meetings and Council sessions will be open to the press and public as provided by state law, except such Council or committee meetings as may be closed consistent with said law to discuss labor relations, certain personnel matters, real estate transactions, litigation, etc.

Section 3. In addition to regular Monday meetings, there shall be such special City Council meetings as are necessary. The City Clerk shall call a special meeting of the Council, upon the written direction of the Mayor, or of any two Councilmembers. Such direction shall state the subject or subjects to be discussed at such special meeting as required by Vancouver City Charter Section 2.10, and shall state the time and place of such special meeting.


Section 4. Notice must be given by the City Clerk for all Council meetings as will comply with RCW 42.30.080 and RCW 35.22.288.

Section 5. That Resolution M-2881 is hereby superseded.

ADOPTED at regular session of the Council of the City of Vancouver, on 10th day of October, 1994.


BRUCE E. HAGENSEN, MAYOR

Attest:


H.R. SHORTEULL, CITY CLERK


TED H. GATHE, CITY ATTORNEY

CERTIFICATE

I, PAUL LEWIS, the duly appointed and qualified City Clerk of the City of Vancouver, Washington, a municipal corporation of the State of Washington, DO HEREBY CERTIFY that *The Columbian* is the official newspaper of the City.

DATED as of this 26th day of February, 2004.

CITY OF VANCOUVER, WASHINGTON

By  _____

Paul Lewis, City Clerk

CERTIFICATE OF THE TREASURER
REGARDING OUTSTANDING WATER AND SEWER REVENUE BONDS AND
SATISFACTION OF PARITY CONDITIONS

I, CARRIE LEWELLEN, the duly appointed, qualified and acting Treasurer of the City of Vancouver, Washington (the "City"), DO HEREBY CERTIFY that the following is a listing of:

- A. The following is a description of all outstanding water and sewer revenue bonds of the City.

<u>Description of Bonds</u>	<u>Remaining Principal Balance (As of February 1, 2004)</u>
Water and Sewer Revenue Refunding Bonds, 1993	\$ 14,955,000
Water and Sewer Revenue Bonds, 1995	\$ 2,955,000
Water and Sewer Revenue Bonds, 1997	\$ 54,185,000
Water and Sewer Revenue Refunding Bonds, 1998	\$ 26,850,000
Water and Sewer Revenue Bonds, 1999	\$ 31,700,000
Water and Sewer Revenue Refunding Bonds, 2002	\$ 11,310,000

- B. As of the date hereof, there is no deficiency in the City of Vancouver Water and Sewer Revenue Bond Fund, or any of the accounts therein.
- C. The issuance by the City of its Water and Sewer Revenue Refunding Bonds, 2004 in the principal amount of \$26,250,000 (the "Bonds") results in a debt service savings and does not require an increase of more than \$5,000 in any year for principal and interest on all outstanding Parity Bonds, including the Bonds.

DATED as of this 26th day of February, 2004.

CITY OF VANCOUVER, WASHINGTON



Carrie Lewellen, Treasurer

CITY OF VANCOUVER, WASHINGTON

WATER AND SEWER REVENUE BONDS, 1999

ORDINANCE NO. M-3463

AN ORDINANCE of the City of Vancouver, Washington, authorizing the issuance and sale of water and sewer revenue bonds in the principal amount of \$33,075,000 for the purpose of funding the acquisition and construction of improvements to the water and sewer system of the City; providing the covenants, terms and conditions under which the bonds and future parity bonds shall be issued; and providing for the sale of the bonds to U.S. Bancorp Piper Jaffray.

APPROVED ON OCTOBER 25, 1999

PREPARED BY:

PRESTON GATES & ELLIS LLP

5000 Columbia Center
701 Fifth Avenue
Seattle, Washington 98104-7078

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ORDINANCE NO. M-3463

AN ORDINANCE of the City of Vancouver, Washington, authorizing the issuance and sale of water and sewer revenue bonds in the principal amount of \$33,075,000 for the purpose of funding the acquisition and construction of improvements to the water and sewer system of the City; providing the covenants, terms and conditions under which the bonds and future parity bonds shall be issued; and providing for the sale of the bonds to U.S. Bancorp Piper Jaffray.

WHEREAS, the City of Vancouver, Washington (the "City"), now owns, maintains and operates a combined water supply and distribution and sewage collection and treatment system including storm water drainage facilities (collectively, the "System"); and

WHEREAS, in the judgment of the City Council, the public health, welfare, safety and convenience require that certain additions to and betterments and extensions of the System be made as more particularly set forth herein; and

WHEREAS, the City now has outstanding as of the date of this ordinance the following Water and Sewer Revenue Bonds:

Series	Authorizing Ordinance	Original Principal Amount	Outstanding Principal Amount
1992	M-3007	\$ 15,275,000	\$ 1,220,000
1993	M-3072	38,000,000	33,535,000
1995	M-3199	33,000,000	6,900,000
1997	M-3315	63,100,000	62,100,000
1998	M-3390	27,500,000	27,260,000

; and

WHEREAS, the ordinances authorizing the issuance of such outstanding Parity Bonds permit the issuance of additional bonds on a parity with the outstanding Parity Bonds if certain conditions are met; and

WHEREAS, in order to provide financing for part of the costs of acquiring, constructing and installing said additions and betterments, it is found to be in the best interest of the City, its inhabitants and other customers of the System that the City issue and sell its water and sewer revenue bonds in the principal amount of \$33,075,000 (the "Bonds") on a parity with the outstanding Parity Bonds; and

WHEREAS, the City has received an offer from U.S. Bancorp Piper Jaffray to purchase the Bonds, and the Council has determined that it is in the best interests of the City to accept such offer.

NOW, THEREFORE, BE IT ORDAINED by the City of Vancouver as follows:

ARTICLE I

DEFINITIONS

Section 1.1 Definitions. As used in this Ordinance, the following words shall have the following meanings:

"Annual Debt Service" for any Fiscal Year or calendar year means the sum of:

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

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

"Arbitrage and Tax Certification" means the certificate executed on behalf of the City pertaining to the calculation and payment of any Rebate Amount with respect to the Bonds.

"Average Annual Debt Service" means the amount determined by dividing (a) the sum of all interest and principal to be paid on outstanding Parity Bonds from the date of determination to the last maturity date of such Parity Bonds, by (b) the number of Fiscal Years or calendar years from and including the Fiscal Year or calendar year in which the determination is made to the last Fiscal Year or calendar year in which the sum of (i) the principal amount of Serial Bonds maturing in such Fiscal Year plus (ii) the Sinking Fund Requirement for such Fiscal Year, exceeds 4% of the principal amount of Parity Bonds outstanding as of the date of determination.

"Bond Fund" means the Water and Sewer Revenue Bond Fund established pursuant to Section 3.2 of Ordinance No. M-2572. The Bond Fund has an Interest Account, a Principal Account, a Reserve Account and a Bond Retirement Account.

"Bond Insurer" means any provider of Qualified Insurance.

"Bond Register" means the records maintained on behalf of the City containing the name and mailing address of each owner of the Bonds or the nominee of such owner, and such other information as the Bond Registrar shall determine.

"Bond Registrar" means the fiscal agencies of the State of Washington in Seattle, Washington, and New York, New York, for the purpose of registering and authenticating the Bonds, maintaining the Bond Register, effecting transfers of ownership of the Bonds and paying interest on and principal of the Bonds.

"Bond Retirement Account" means the account of that name created in the Bond Fund to amortize the principal of Term Bonds.

"Bonds" means the water and sewer revenue bonds authorized to be issued pursuant to this ordinance.

"Budget Manager" means the City's Budget Manager or such other person as may hereafter be designated by statute or ordinance to perform the duties of such office.

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

"Code" means the Internal Revenue Code of 1986, as amended, together with corresponding and applicable final, temporary or proposed regulations and revenue rulings issued or amended with respect thereto by the United States Treasury Department or Internal Revenue Service, to the extent applicable to the Bonds.

"Commission" means the Securities and Exchange Commission.

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

"Coverage Stabilization Account" means the account of that name created pursuant to Section 4.1 of Ordinance No. M-3315.

"Default" with respect to the Bonds, means an Event of Default as defined in Section 5.1 hereof.

"DTC" means The Depository Trust Company, New York, New York.

"Fiscal Year" means the fiscal year used by the City at any time.

"Future Parity Bonds" means any Parity Bonds that the City may hereafter issue.

"Government Obligations" means obligations which as to principal and interest constitute direct obligations of, or are unconditionally guaranteed by, the United States.

"Letter of Representations" means the letter previously executed by the Budget Manager which is required by DTC to permit the Bonds to be held in fully immobilized form.

"MSRB" means the Municipal Securities Rulemaking Board or any successor to its functions.

"Net Revenues" means the Revenues less the Operating Expenses.

"1998 Bonds" means the water and sewer revenue refunding bonds authorized by Ordinance No. M-3390 in the principal amount of \$27,260,000.

"1997 Bonds" means the water and sewer revenue bonds authorized by Ordinance No. M-3315 in the principal amount of \$63,100,000.

"1995 Bonds" means the water and sewer revenue bonds authorized by Ordinance No. M-3199 in the principal amount of \$33,000,000.

"1993 Bonds" means the water and sewer revenue bonds authorized by Ordinance No. M-3072 in the principal amount of \$38,000,000.

"1992 Bonds" means the water and sewer revenue bonds of the City authorized by Ordinance No. M-3007 in the principal amount of \$15,275,000.

"NRMSIR" means a nationally recognized municipal securities information repository.

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

"Parity Bonds" means the 1992 Bonds, the 1993 Bonds, the 1995 Bonds, the 1997 Bonds, the 1998 Bonds, the Bonds and any Future Parity Bonds. "Parity Bonds" may include bonds, notes, warrants, certificates of indebtedness or any other evidence of indebtedness..

"Permitted Investments" means the following, to the extent that the same are legal for investment of funds of the City: (a) any bonds or other obligations which as to principal and interest constitute direct obligations of, or are unconditionally guaranteed by, the United States, 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 Bank for Cooperatives, the Federal Land Banks, the Federal Farm Credit Bank, the Farmers Home Administration and the Federal Home Loan Mortgage Association, or any like governmental or government sponsored agency or instrumentality that shall be hereafter established; (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 territorial United States, to the payment of the principal of and interest on which the full faith and credit of such State 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 Services or Standard & Poor's Ratings Services, whichever rating agency then maintains a rating on the Bonds, or, if both of such rating agencies have ratings on the Bonds outstanding, then such obligations shall be so rated by both agencies; (e) certificates of deposit, whether negotiable or non-negotiable, 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, provided that such certificates of deposit shall be (i) continuously and fully insured by the Federal Deposit Insurance Corporation, or (ii) issued by any bank or trust company organized under the laws of any state of the United States, or any national banking association, having a combined capital and surplus of at least \$10,000,000, so long as the deposits to which such certificates of deposit relate do not exceed at any one time, in the aggregate, 10% of the total of the capital and surplus of such bank or trust company or national banking association, or (iii) continuously and fully secured by such securities as are described above in clauses (a) and (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) any repurchase agreement with any bank or trust company organized under the laws of any state of the United States or any national banking association, which agreement is secured by any one or more of the securities 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 of not less than 103% of the repurchase prices set forth in such repurchase agreements; and (g) any other investments permitted under the laws of the State of Washington as amended from time to time.

"Professional Utility Consultant" means the independent person(s) or firm(s) selected by the City having a favorable reputation for skill and experience with 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.

"Project" means the additions to and betterments of the System set forth in Exhibit A hereto.

"Purchase Contract" means that certain offer to purchase the Bonds, dated October 25, 1999, made by the Purchaser, and approved pursuant to Section 3.8 hereof.

"Purchaser" means U.S. Bancorp Piper Jaffray pursuant to the Purchase Contract.

"Qualified Insurance" means any unconditional 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, which insurance company or service corporation is rated in one of the two highest rating categories by either Moody's Investors Service or Standard & Poor's Ratings Services, whichever rating agency then maintains a rating on the Bonds, or, if both of such rating agencies have ratings on the Bonds outstanding, then such company or bank shall be so rated by both agencies, provided, that, as of the time of issuance of such policy or surety bond, such insurance company or companies maintain a policyowner's surplus in excess of \$500,000,000.

"Qualified Letter of Credit" means any irrevocable letter of credit issued by a bank for the account of the City and for the benefit of the owners of any of the Parity 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 by either Moody's Investors Service or Standard & Poor's Ratings Services, whichever rating agency then maintains a rating on the Parity Bonds, or, if both of such rating agencies have ratings on the Parity Bonds outstanding, then such company or bank shall be so rated by both agencies.

"Rebate Amount" means the amount, if any, determined to be payable with respect to the Bonds by the City to the United States of America in accordance with Section 148(f) of the Code.

"Reserve Account" means the account of that name created in the Bond Fund to secure the payment of the principal of and interest on any Parity Bonds.

"Reserve Account Requirement" means, with respect to any issue of Parity Bonds, the lesser of (a) maximum Annual Debt Service on all outstanding Parity Bonds, and (b) 125% of Average Annual Debt Service on all outstanding Parity Bonds; provided, that the amount required to be deposited hereunder with respect to any Future Parity Bonds in order to meet the Reserve Fund Requirement shall not exceed 10% of the net proceeds of such Future Parity Bonds under the Code.

"Revenue Fund" means the Water and Sewer Revenue Fund of the City created by Section 4 of Ordinance No. M-93 of the City.

"Revenues" means all income, receipts and revenues received 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 or facilities of the System, together with the investment income earned on moneys held in any fund or account of the City including the Bond Fund, in connection with the ownership and operation of the System, and any contributions from other funds of the City or other sources, including individual and government agencies, but excluding investment income restricted to a particular purpose inconsistent with its use for the payment of debt service generally, in connection with the ownership and operation of the System.

"Rule" means the Commission's Rule 15c2-12 under the Securities and Exchange Act of 1934, as the same may be amended from time to time.

"Serial Bonds" means Parity Bonds other than Term Bonds.

"SID" means a state information depository for the State of Washington (if one is created).

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

"System" means the existing sanitary sewage collection and treatment system of the City, together with the existing water supply and distribution system and the existing storm drainage facilities of the City, as such systems now exist and as they may later be added to, extended and improved, for as long as any Parity Bonds remain outstanding. The City Council may, in its discretion, hereafter determine by ordinance to include facilities for the collection, processing of and disposal of solid waste as a part of the System.

"Term Bonds" means any Parity Bonds, identified as such in the ordinance authorizing the issuance thereof, that are subject to mandatory redemption, the payment of which is provided for by a requirement for mandatory deposits of money into the Bond Retirement Account.

"Treasurer" means the duly qualified and acting Treasurer of the City or the successor to the duties of such office.

ARTICLE II

PLAN OF ADDITIONS

Section 2.1. The Project.

The plan for providing additions to and betterments and extensions of the System of the City set forth with the estimated costs thereof in Exhibit A attached hereto is incorporated by reference herein and is hereby specified and adopted.

Such plan will be described with particularity in the plans and specifications to be prepared by the City and consulting engineers for the City, and said plans and specifications will be on file with the City and available for public inspection.

The City shall acquire, construct and install the various parts of the plan described in this section (the "Project") in such order and at such time or times as found to be necessary and advisable and shall provide all equipment, valves, couplings, connections and appurtenances together with all work as may be incidental and necessary to complete said additions and betterments. The foregoing facilities shall be integrated into the existing facilities of the System as required to provide a fully operational facility.

The City may make such changes in the foregoing facilities or equipment or in the construction or design of other facilities of the System as may be found necessary or desirable, either prior to or during the course of acquisition and construction.

Upon completion of the Project or in the event any portion of the Project shall be found by the Council not to be practical or necessary to complete, the City may apply any remaining available proceeds of the Bonds to the acquisition or construction of such other facilities of the System as the Council shall deem necessary and appropriate.

ARTICLE III

AUTHORIZATION AND ISSUANCE OF BONDS

Section 3.1 Compliance with Parity Conditions. The Council hereby finds and determines, as required by Section 4.6 of Ordinance No. M-2845, Section 4.6 of Ordinance No. M-3072, Section 4.6 of Ordinance No. M-3199, Section 4.6 of Ordinance No. M-3315 and Section 4.6 of Ordinance No. M-3390, as follows:

First, that the Bonds are being issued for the purpose of acquiring, constructing and installing additions and improvements to and extensions of, and acquiring necessary equipment for or making necessary repairs, replacements or other capital improvements to, the System;

Second, that at the time of the adoption of this Ordinance and at the time of the issuance and delivery of the Bonds there is not nor will there be any deficiencies in the Bond Fund;

Third, that by Section 4.3 of this Ordinance the City has covenanted and provided that it will pay into and maintain in the Reserve Account created in said section the amounts required by Section 4.3D of Ordinance No. M-3007, Section 4.3D of Ordinance No. M-3072, Section 4.3D of Ordinance No. M-3199, Section 4.3D of Ordinance No. M-3315 and Section 4.3D of Ordinance No. M-3390 to be paid into and maintained in said Reserve Account for the purpose of securing the payment of the principal of and interest on the Bonds;

Fourth, that at the time of the issuance and delivery of the Bonds the City will have on file a certificate from a Professional Utility Consultant not then employed by the City, except for purposes of giving such certificate, showing that the Net Revenues received from the most recent twelve-month period for which financial statements are available within the twenty-four months preceding the delivery of the Bonds equals at least 1.3 times the Average Annual Debt Service for each calendar year or Fiscal Year thereafter on the currently outstanding Parity Bonds, and that the Adjusted Net Revenues (as defined in Ordinance No. M-2572) to be received each calendar year or Fiscal Year thereafter will equal at least 1.3 times the Average Annual Debt Service each such calendar year on the currently outstanding Parity Bonds and the Bonds.

The conditions contained in Section 4.6 of Ordinance No. M-3007, Section 4.6 of Ordinance No. M-3072, Section 4.6 of Ordinance No. M-3199, Section 4.6 of Ordinance No. M-3315 and Section 4.6 of Ordinance No. 3390 having been complied with or assured, the

payments required herein to be made out of the Revenue Fund into the Bond Fund and the Reserve Account to pay and secure the payment of the principal of and interest on the Bonds shall constitute a lien and charge upon the money in the Revenue Fund equal in rank with the lien and charge thereon for the payments required to be made for the 1992 Bonds, the 1993 Bonds, the 1995 Bonds, the 1997 Bonds and the 1998 Bonds.

Section 3.2 Issuance of the City of Vancouver, Washington Water and Sewer Revenue Bonds, 1999.

A. Description of Bonds. The City shall issue the Bonds in the aggregate principal amount of \$33,075,000 for the purpose of paying a portion of the costs of the Project and paying the expenses incidental to the issuance of the Bonds.

The Bonds shall be designated the "City of Vancouver, Washington, Water and Sewer Revenue Bonds, 1999"; shall be in the denomination of \$5,000 each or any integral multiple thereof, provided, that no Bond shall represent more than one maturity; shall be fully registered as to both principal and interest; and shall be numbered separately in the manner and with any additional designation as the Bond Registrar deems necessary for purposes of identification. The Bonds shall be dated as of November 1, 1999, and shall bear interest from their date until the bond bearing such interest has been paid or its payment duly provided for, payable semiannually on June 1 and November 1, commencing June 1, 2000, and shall mature on June 1 of the years and in the amounts, as follows:

Maturity Date (June 1)	Principal Amount	Interest Rate
2002	\$ 470,000	5.125%
2003	905,000	5.125
2004	950,000	5.125
2005	1,005,000	5.125
2006	1,060,000	5.125
2007	1,125,000	5.25
2008	1,185,000	5.25
2009	1,250,000	5.30
2010	1,335,000	5.50
2011	1,405,000	5.75
2012	1,500,000	5.75
2013	720,000	5.60
2014	2,530,000	6.00
2015	2,695,000	6.00
2020*	14,940,000	6.00

*Term Bond

B. Initial Immobilization of Bonds; Depository Provisions. The Bonds initially shall be held in fully immobilized form by DTC acting as depository pursuant to the terms and conditions set forth in the Letter of Representations.

Neither the City nor the Bond Registrar shall have any responsibility or obligation to DTC participants or the persons for whom they act as nominees with respect to the Bonds as to the accuracy of any records maintained by DTC (or any successor depository) or any DTC participant, the payment by DTC or any DTC participant of any amount in respect of principal or redemption price or interest on the Bonds, any notice that is permitted or required to be given to Registered Owners under this ordinance (except such notice as is required to be given by the City to the Bond Registrar or to DTC), the selection by DTC or any DTC participant of any person to receive payment in the event of a partial redemption of the Bonds or any consent given or other action taken by DTC as owner of the Bonds.

The Bonds initially shall be issued in denominations equal to the aggregate principal amount of each maturity and initially shall be registered in the name of CEDE & Co., as the nominee of DTC. The Bonds so registered shall be held in fully immobilized form by DTC as depository. For so long as any Bonds are held in fully immobilized form, DTC, its successor or any substitute depository appointed by the City, as applicable, shall be deemed to be the Registered Owner for all purposes hereunder and all references to Registered Owners, bondowners, bondholders, owners or the like shall mean DTC or its nominees and shall not mean the owners of any beneficial interests in the Bonds. Registered ownership of such Bonds, or any portions thereof, may not thereafter be transferred except:

1. To any successor of DTC or its nominee, if that successor shall be qualified under any applicable laws to provide the services proposed to be provided by it;
2. To any substitute depository appointed by the City pursuant to this subsection or such substitute depository's successor; or
3. To any person as herein provided if the Bonds are no longer held in immobilized form.

Upon the resignation of DTC or its successor (or any substitute depository or its successor) from its functions as depository, or a determination by the City to discontinue the system of book entry transfers through DTC or its successor (or any substitute depository or its successor), the City may appoint a substitute depository. Any such substitute depository shall be qualified under any applicable laws to provide the services proposed to be provided by it.

In the case of any transfer pursuant to clause (i) or (ii) of the second paragraph of this subsection, the Bond Registrar, upon receipt of all outstanding Bonds together with a written request on behalf of the City, shall issue a single new Bond for each maturity of Bonds then

outstanding, registered in the name of such successor or such substitute depository, or their nominees, as the case may be, all as specified in such written request of the City.

In the event that (i) DTC or its successor (or substitute depository or its successor) resigns from its functions as depository, and no substitute depository can be obtained, or (ii) the City determines that the beneficial owners of the Bonds be able to obtain Bond certificates, the ownership of Bonds may be transferred to any person as herein provided, and the Bonds shall no longer be held in fully immobilized form. The City shall deliver a written request to the Bond Registrar, together with a supply of definitive Bonds, to issue Bonds as herein provided in any authorized denomination. Upon receipt of all then outstanding Bonds by the Bond Registrar, together with a written request on behalf of the City to the Bond Registrar, new Bonds shall be issued in such denominations and registered in the names of such persons as are requested in such a written request.

C. Place, Manner and Medium of Payment. Both principal of and interest on the Bonds shall be payable in lawful money of the United States of America. For so long as outstanding Bonds are registered in the name of CEDE & Co., or its registered assigns, as nominee of DTC, payments of principal of and interest on the Bonds shall be made in next day funds on the date such payment is due and payable at the place and in the manner provided in the Letter of Representations.

In the event that Bonds are no longer held in fully immobilized form by DTC, interest on the Bonds shall be paid by checks or drafts mailed, or by wire transfer, to owners of Bonds at the addresses for such owners appearing on the Bond Register on the 15th day of the calendar month preceding the interest payment date. Wire transfers will be made only if so requested in writing 15 days prior to a payment date and if the owner owns at least one million dollars (\$1,000,000)

par value of the Bonds. Principal of the Bonds shall be payable at maturity or on such dates as may be fixed for prior redemption upon presentation and surrender of the Bonds by the owners at either principal office of the Registrar in Seattle, Washington, or New York, New York, at the option of such owners.

Section 3.3 Bond Registration. The fiscal agencies of the State of Washington in the cities of Seattle, Washington, and New York, shall act as registrar for the Bonds (collectively, the "Bond Registrar"). The Bond Registrar shall maintain the Bond Register.

Upon the surrender thereof to the Bond Registrar, the Bonds are interchangeable for other Bonds of any authorized denomination in an equal aggregate principal amount and of the same interest rate and maturity date. Bonds may be transferred only if endorsed in the manner provided thereon and surrendered to the Bond Registrar. Such exchange or transfer shall be without cost to the owner or transferee. The Bond Registrar shall not be required to register, transfer or exchange any Bonds that have been called for redemption.

The Bonds shall be obligations only of the Bond Fund and shall be payable and secured as provided herein. The Bonds shall not be general obligations of the City.

The City hereby specifies and adopts the system of registration for the Bonds approved by the Washington State Finance Committee. The Bond Registrar shall keep, or cause to be kept, at its principal corporate trust office, sufficient books for the registration and transfer of the Bonds which shall at all times be open to inspection by the City. The Bond Registrar is authorized, on behalf of the City, to authenticate and deliver Bonds transferred or exchanged in accordance with the provisions of such Bonds and this ordinance and to carry out all of the Bond Registrar's powers and duties under this ordinance.

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

Section 3.4 Redemption or Purchase Prior to Maturity.

A. Optional Redemption. The Bonds maturing on and after June 1, 2010, are subject to optional redemption, in whole or in part, on any date on and after June 1, 2009, at a price of par plus interest accrued to the date of redemption.

No optional redemption of Bonds may occur until all payments due to a Bond Insurer, with respect to the Bonds to be redeemed, have been made.

B. Mandatory Redemption. The Bonds maturing on June 1, 2020 (which shall be deemed to be Term Bonds) shall be redeemed prior to maturity by lot (or paid at maturity), not later than June 1 in the years 2016 through 2020 (to the extent such Bonds have not been previously redeemed or purchased) and in the principal amounts set forth below, without premium, together with the interest accrued to the date fixed for redemption.

<u>Year</u>	<u>Amount</u>
2016	\$ 2,860,000
2017	2,170,000
2018	2,310,000
2019	3,685,000
2020	3,915,000

C. Notice of Call. Notice of any call for redemption shall be given not less than thirty (30) nor more than sixty (60) days prior to the date fixed for redemption by first-class mail, postage prepaid, to the registered owner of any Bond to be redeemed at the address

appearing on the Bond Register. The requirements of this Section shall be deemed to have been complied with when notice of redemption is mailed as herein provided, regardless of whether or not it is actually received by the owner of any Bond.

All official notices of redemption shall be dated and shall state:

- (1) the redemption date,
- (2) the redemption price,
- (3) if less than all outstanding Bonds are to be redeemed, the identification (and, in the case of partial redemption, the respective principal amounts) of the Bonds to be redeemed,
- (4) that on the redemption date the redemption price will become due and payable upon each such Bond or portion thereof called for redemption, and that interest thereon shall cease to accrue from and after said date, and
- (5) the place where such Bonds are to be surrendered for payment of the redemption price, which place of payment shall be the principal office of the Bond Registrar.

On or prior to any redemption date, the City shall deposit with the Bond Registrar an amount of money sufficient to pay the redemption price of all the Bonds or portions of Bonds which are to be redeemed on that date.

Official notice of redemption having been given as aforesaid, the Bonds or portions of Bonds so to be redeemed shall, on the redemption date, become due and payable at the redemption price therein specified, and from and after such date (unless the City shall default in the payment of the redemption price) such Bonds or portions of Bonds shall cease to bear interest. Upon surrender of such Bonds for redemption in accordance with said notice, such Bonds shall be paid by the Bond Registrar at the redemption price. Installments of interest due

on or prior to the redemption date shall be payable as herein provided for payment of interest. All Bonds that have been redeemed shall be cancelled and destroyed by the Bond Registrar and shall not be reissued.

In addition to the foregoing notice, further notice shall be given by the City as set out below, but no defect in said further notice nor any failure to give all or any portion of such further notice shall in any manner defeat the effectiveness of a call for redemption if notice thereof is given as above prescribed.

(i) Each further notice of redemption given hereunder shall contain the information required above for an official notice of redemption plus (1) the CUSIP numbers of all Bonds being redeemed; (2) the date of issue of the Bonds as originally issued; (3) the rate of interest borne by each Bond being redeemed; (4) the maturity date of each Bond being redeemed; and (5) any other descriptive information needed to identify accurately the Bonds being redeemed.

(ii) Each further notice of redemption may be sent at least thirty-five (35) days before the redemption date by registered or certified mail or overnight delivery service to all registered securities depositories then in the business of holding substantial amounts of obligations of types comprising the Bonds (such depositories now being Depository Trust Company of New York, New York, Midwest Securities Trust Company of Chicago, Illinois, Pacific Securities Depository Trust Company of San Francisco, California and Philadelphia Depository Trust Company of Philadelphia, Pennsylvania) and shall be sent to one or more national information services that disseminate notice of redemption of obligations such as the Bonds, such as Moody's Investors Service and Standard & Poor's Corporation, at their respective offices in New York, New York.

(iii) Upon the payment of the redemption price of 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.

The City shall provide additional notice of redemption at the same time to the MSRB or to each NRMSIR and SID, if any, in accordance with Section 8.10.

D. Effect of Call. Interest on any Bonds so called for redemption shall cease on such redemption date unless the same shall not be redeemed upon presentation made pursuant to such call.

E. Partial Redemption of Bonds. Portions of any Bond, in any integral multiple of \$5,000, may be redeemed in accordance with the provisions set forth above. If less than all of the principal amount of any Bond is redeemed, upon surrender of such Bond at the principal office of the Bond Registrar there shall be issued to the registered owner, without charge therefor, for the then unredeemed balance of the principal amount thereof, a new Bond or Bonds of like maturity and interest rate in any of the denominations authorized by this Ordinance.

F. Purchase of Bonds in Open Market. The City further reserves the right to use at any time any surplus Revenues available after providing for the payments required by paragraphs First through Sixth, inclusive, of Section 4.1 of this Ordinance, or other available funds, to purchase any of the Bonds in the open market for retirement only, if the same may be purchased at any price deemed appropriate by the City, plus accrued interest. Any purchase of Bonds may be made with or without tender of Bonds and at either public or private sale.

Section 3.5 Lost or Destroyed Bonds. In case any Bonds shall be lost, stolen or destroyed, the Bond Registrar may authenticate and deliver a new bond or bonds of like amount, date and tenor to the registered owner thereof upon the owner's paying the expenses and charges of the Bond Registrar and the City in connection therewith and upon his filing with the Bond Registrar and the City evidence satisfactory to both that such bond or bonds were actually lost, stolen or destroyed and of his ownership thereof, and upon furnishing the City and the Bond Registrar with indemnity satisfactory to both.

Section 3.6 Form of Bonds. The Bonds shall be in substantially the following form:

UNITED STATES OF AMERICA

No. _____

\$ _____

STATE OF WASHINGTON

CITY OF VANCOUVER

WATER AND SEWER REVENUE BOND, 1999

INTEREST RATE:

MATURITY DATE:

CUSIP NO.:

SEE REVERSE SIDE FOR
CERTAIN DEFINITIONS:

Registered Owner:

Principal Amount: _____ DOLLARS

The City of Vancouver, Washington, a municipal corporation organized and existing under and by virtue of the laws of the State of Washington (the "City") hereby acknowledges itself to owe and for value received promises to pay, but only from the sources and as hereinafter provided, to the Registered Owner identified above, or registered assigns, on the Maturity Date identified above, the Principal Amount indicated above and to pay interest thereon from November 1, 1999, or the most recent date to which interest has been paid or duly provided for, at the Interest Rate set forth above, payable June 1, 2000, and semiannually thereafter on the first days of each June and December until such principal sum is paid or payment has been duly provided for.

Both principal of and interest on this bond are payable in lawful money of the United States of America. While bonds are held in an immobilized "book entry" system of registration, the principal of this bond is payable to the order of the Registered Owner in next day funds received by the Registered Owner on the maturity date of this bond, and the interest on this bond is payable to the order of the Registered Owner in next day funds received by the Registered Owner on each interest payment date. When bonds are no longer held in an immobilized "book entry" registration system, the principal shall be paid to the Registered Owner or nominee of such owner upon presentation and surrender of this bond at either of the principal offices of the fiscal agency of the State of Washington in either Seattle, Washington or New York, New York (collectively the "Bond Registrar"), and the interest shall be paid by mailing a check or draft (on the date such interest is due) to the Registered Owner or nominee of such owner at the address shown on the registration books maintained by the Bond Registrar (the "Bond Register") as of the 15th day of the month prior to the interest payment date; provided, however, that if so requested in writing by the Registered Owner of at least \$1,000,000 par value of the Bonds at least 15 days prior to a payment date, interest will be paid by wire transfer.

This bond is one of an authorized issue of bonds of the City of like date and tenor except as to number, amount, rate of interest and date of maturity in the aggregate principal amount of \$33,075,000. This issue of bonds is authorized by Ordinance No. M-3463 of the City (herein called the "Bond Ordinance") for the purpose of funding the acquisition and construction of improvements to the water and sewer System of the City, all in conformity with the laws of the State of Washington and ordinances of the City.

This bond and the bonds of this issue are payable solely from the special fund of the City known as the "Water and Sewer Revenue Bond Fund" (the "Bond Fund") created by Ordinance No. M-2572 in the office of the Treasurer of the City. The City has irrevocably obligated and bound itself to pay into the Bond Fund out of the Revenues of the System (as defined in the Bond Ordinance), or from such other moneys as may be provided therefor, certain amounts necessary to pay and secure the payment of the principal and interest on such bonds.

The bonds of this issue are not general obligations of the City.

The bonds of this issue are issued under and in accordance with the provisions of the Constitution and applicable statutes of the State of Washington and duly adopted ordinances of the City. The City hereby covenants and agrees with the owner of this bond that it will keep and perform all the covenants of this bond and of the Bond Ordinance to be by it kept and performed, and reference is hereby made to the Bond Ordinance for a complete statement of such covenants.

The City does hereby pledge and bind itself to set aside from the Revenue Fund out of the Revenues of the System and to pay into the Bond Fund and the accounts created therein the various amounts required by the Bond Ordinance to be paid into and maintained in such Fund and accounts, all within the times provided by the Bond Ordinance.

To the extent more particularly provided by the Bond Ordinance, the amounts so pledged to be paid from the Revenue Fund out of the Revenues of the System into the Bond Fund and the accounts therein shall be a lien and charge thereon equal in rank to the lien and charge upon said

Revenues of the amounts required to pay and secure the payment of the Water and Sewer Revenue Bonds, 1992, 1993, 1995, 1997 and 1998 of the City, and any revenue bonds of the City hereafter issued on a parity with the bonds of this issue and superior to all other liens and charges of any kind or nature, except the Operating Expenses of the System.

The City has further bound itself to maintain the System in good repair, working order and condition, to operate the same in an efficient manner and at a reasonable cost, and to establish, maintain and collect rates and charges for as long as any of the bonds of this issue are outstanding that will make available, for the payment of the principal thereof and interest thereon as the same shall become due, Net Revenues (as defined in the Bond Ordinance) in an amount that will be at least equal to 1.30 times the Average Annual Debt Service (as defined in the Bond Ordinance).

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

The Bonds are subject to optional and mandatory redemption at the times and prices set forth in the Bond Ordinance.

The bonds of this issue may be transferred only if endorsed in the manner provided hereon and surrendered to the Bond Registrar. The bonds are interchangeable for bonds of any authorized denomination of an equal aggregate principal amount and of the same interest rate and maturity upon presentation and surrender to the Bond Registrar. Such transfer or exchange shall be without cost to the registered owner.

The capitalized terms used herein have the meanings set forth in the Bond Ordinance. Reference is made to the Bond Ordinance and any and all modifications and amendments thereof for a description of the nature and extent of the security for the bonds of this issue, the funds or revenues pledged, and the terms and conditions upon which such bonds are issued.

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

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

IN WITNESS WHEREOF, the City has caused this bond to be signed with the facsimile signature of the Mayor, to be attested by the facsimile signature of the City Clerk, and the corporate seal of the City to be imprinted hereon, all as of this 1st day of November, 1999.

CITY OF VANCOUVER, WASHINGTON

By /s/ facsimile
Mayor

(SEAL)

ATTEST:

 /s/ facsimile
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 Water and Sewer Revenue Bonds, 1999 of the City of Vancouver, Washington, dated November 1, 1999.

WASHINGTON STATE FISCAL
AGENCY, Bond Registrar

By _____
Authorized Officer

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 _____,
or its successor, attorney-in-fact to transfer said bond on the registration books of the Bond
Registrar with full power of substitution in the premises.

DATED: _____.

SIGNATURE GUARANTEED:

NOTICE: Signature(s) must be
guaranteed pursuant to law.

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.

Section 3.7 Execution and Authentication of Bonds. The Bonds shall be signed on
behalf of the City with the facsimile signature of the Mayor and attested by the facsimile
signature of the City Clerk. The seal of the City shall be impressed or a facsimile thereof
imprinted on the face of each Bond.

Only such Bonds as shall bear thereon a Certificate of Authentication in the form
hereinbefore recited, manually executed by the Bond Registrar, shall be valid or obligatory for
any purpose or entitled to the benefits of this Ordinance. Such Certificate of Authentication shall

be conclusive evidence that the Bonds so authenticated have been duly executed, authenticated, and delivered hereunder and are entitled to the benefits of this Ordinance.

In case either of the officers who shall have executed the Bonds shall cease to be an officer or officers of the City before the Bonds so signed shall have been authenticated or delivered by the Bond Registrar, or issued by the City, such Bonds shall be valid nevertheless and may be issued by the City with the same effect as though the persons who had executed such Bonds had not ceased to be such officers.

Section 3.8 Sale of Bonds. The Council hereby finds and determines that the Purchase Contract is fair and reasonable and in the best interest of the City, and the Bonds shall be sold upon the terms and conditions set forth herein and in the Purchase Contract and upon the basis of the representations therein set forth.

The Council further finds and determines that all conditions precedent to or concurrent with the acceptance of the Purchase Contract by the Council have been met.

The Council hereby accepts the Purchase Contract and hereby authorizes and directs the City Manager to execute the Purchase Contract and deliver it to the Purchaser. The terms and conditions of the Bonds set forth in the Purchase Contract are incorporated herein by reference as if fully set forth within this ordinance.

The Bonds shall be issued and delivered to the Purchaser upon payment of the purchase price specified in the Purchase Contract plus accrued interest, if any, on the Bonds from their date to the date of their delivery.

Section 3.9 Official Statement; Use of Documents. The City Manager and/or Budget Manager are authorized and directed to execute and deliver to the Purchaser copies of an Official Statement, in substantially the form of the Preliminary Official Statement, with certain

handwritten additions and corrections, presented at this meeting and is on file with the City Clerk; provided, however, that the City Manager and/or Budget Manager are authorized to supplement, revise, or amend the Official Statement as they deem necessary or appropriate, which shall be deemed conclusively shown by the signing thereof.

The City approves and authorizes the use of such Official Statement by the Purchaser (including any such supplements and amendments thereto) in connection with the public offering and sale of the Bonds. The distribution by the Purchaser of the Preliminary Official Statement in connection with the public offering of the Bonds, is hereby ratified, confirmed and approved.

For the sole purpose of the Purchaser's compliance with Securities and Exchange Commission Rule 15c2-12(b)(1), the City "deems final" the Preliminary Official Statement as of its date, except for the omission of information on offering prices, interest rates, selling compensation, delivery dates, any other such terms and provisions.

ARTICLE IV

FUNDS; COVENANTS SECURING BONDS; PARITY BONDS

Section 4.1 Priority of Payments from Revenue Fund. A special fund of the City known as the "Water and Sewer Revenue Fund" has heretofore been established by Section 4 of Ordinance No. M-93 of the City, into which shall be deposited all Revenues as collected. Moneys in the Revenue Fund shall be trust funds and shall be held separate and apart from all other funds and accounts of the City.

There have heretofore been created in the Revenue Fund two accounts known as (i) the General Account and (ii) the Coverage Stabilization Account, which accounts shall be held and used for the purposes hereinafter described.

The Revenues shall be deposited and credited to the following accounts in the Revenue Fund and used only for the following purposes and in the following order of priority:

A. All Revenues paid into the Revenue Fund shall first be credited to the General Account therein and applied as follows:

FIRST, to pay the Operating Expenses and to maintain a balance in the Revenue Fund sufficient to enable the City continuously to meet Operating Expenses on a current basis;

SECOND, to make all payments required to be made into the Interest Account to pay the interest on any Parity Bonds;

THIRD, to make all payments required to be made into the Principal Account to pay the maturing principal of any Parity Bonds and to make all payments required to be made into the Bond Retirement Account to provide for the mandatory redemption of Term Bonds;

FOURTH, to make all payments required to be made into the Reserve Account to secure the payment of the principal of and interest on outstanding Parity Bonds;

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

SIXTH, to make all payments required to be made into any revenue bond redemption fund, revenue warrant redemption fund, debt service account, reserve account or bond retirement account created to pay and secure the payment of the principal of and interest on any revenue bonds, or revenue warrants or other revenue obligations of the City having a lien

upon the Revenues junior and inferior to the lien thereon for the payment of the principal of and interest on the Parity Bonds;

SEVENTH, to retire by redemption or purchase in the open market any outstanding water and sewer revenue bonds or other obligation of the City, to make necessary additions, betterments, improvements and repairs to or extensions and replacements of the System, or for any other lawful City purposes.

B. To the extent that surplus Revenues remain after the payments so required to be made out of the General Account, the City may credit up to the full amount of such surplus to the Coverage Stabilization Account.

Any credits from the General Account pursuant to this subsection B, and any credits to the General Account from the Coverage Stabilization Account made pursuant to Section 4.5 hereof, shall be made prior to closing the books and accounts of the City for each Fiscal Year.

The Coverage Stabilization Account is created in anticipation of future increases in revenue requirements. Funds in the Coverage Stabilization Account may be transferred to the General Account to accommodate part or all of those future revenue requirement increases.

Moneys in the Coverage Stabilization Account may be used for any lawful purpose. Moneys in the Coverage Stabilization Account shall be used from time to time to make up any deficiencies in the Bond Fund, and such moneys in the Coverage Stabilization Account are hereby pledged as additional payments to the Bond Fund to the extent required for any such deficiencies.

Section 4.2 Bond Fund.

A. Bond Fund and Accounts Therein. A special fund of the City was created by Ordinance No. M-2572 and designated the "Water and Sewer Revenue Bond Fund" (the

"Bond Fund"). The Bond Fund shall be held in trust and administered by the City and shall be used solely for the purpose of paying the principal of and premium, if any, and interest on the Parity Bonds, and of retiring the Parity Bonds prior to maturity. There was created in the Bond Fund an Interest Account, a Principal Account, a Reserve Account and a Bond Retirement Account.

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

B. Transfer to Paying Agents. Moneys in the Bond Fund shall be transmitted to the Bond Registrar in amounts sufficient to meet the maturing installments (or mandatory redemption) of principal of and premium, if any, and interest on the Bonds when due.

C. Beneficiaries of Bond Fund and of Funds Held by Bond Registrar. Moneys set aside from time to time with the Bond Registrar for payment of the principal of and premium, if any, and interest on the Bonds shall be held in trust for the owners of the Bonds. Until so set aside, all moneys in the Bond Fund shall be held in trust for the benefit of the owners of all Parity Bonds at the time outstanding equally and ratably and without preference or distinction as between Parity Bonds of different series or maturities.

D. When No Further Payments Into Bond Fund Required; Disposition of Surplus Funds. Whenever the assets of the Bond Fund shall be sufficient to provide moneys to retire all Parity Bonds then outstanding, including such interest thereon as thereafter may become due and payable and any premiums upon redemption thereof, no further payments need be made

into the Bond Fund. 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 Parity Bonds shall be transferred to the Revenue Fund.

Section 4.3 Fixed Amounts to be Paid into Bond Fund. The City hereby irrevocably obligates and binds itself to set aside and to pay (to the extent not otherwise provided) from moneys in the Revenue Fund into the Bond Fund, after paying or making provision for the payment of Operating Expenses and reserving sufficient moneys which, together with reasonably expected Revenues, will provide for the payment of Operating Expenses for a reasonable period, and prior to the payment of any other charge or obligation against such Revenues, amounts sufficient to pay the principal of and 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 requirements for the mandatory retirement of Term Bonds prior to their maturity.

The fixed amounts to be paid into the Bond Fund shall be as follows:

A. Interest Account. Not later than the last day of the month in which the Bonds are delivered to the initial purchasers thereof and on or before the 20th day of each month thereafter, the City shall pay from the Revenue Fund into the Bond Fund to the credit of the Interest Account an amount such that, if the same amount were so paid and credited to the Interest Account on the 20th 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 outstanding Bonds.

B. Principal Account. Not later than the 20th day of the twelfth month prior to each Bond maturity date, and on or before the 20th day of each month thereafter, the City shall pay from the Revenue Fund into the Bond Fund to the credit of the Principal Account an amount such that, if the same amount were so paid and credited to the Principal Account on the 20th day of each succeeding month thereafter and prior to each 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. Bond Retirement Account. Not later than the 20th day of the twelfth month prior to each Sinking Fund Requirement Date, 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 20th 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 20th 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 (or payment at maturity) 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. 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 June 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 June 1, then such excess may be credited against the Sinking Fund Requirement for the Term Bonds for the following Fiscal Year or calendar 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.

The City covenants and agrees that in the event it issues any Future Parity Bonds that are Term Bonds, it will provide in each ordinance authorizing the issuance of the same for regular monthly payments to be made from the Revenue Fund into the Bond Retirement Account sufficient to amortize the principal of such Future Parity Bonds that are Term Bonds on or before the maturity date thereof as provided above.

D. Payments into Reserve Account. The City covenants and agrees that, on or prior to the date of issuance of the Bonds, it will set aside and pay into the Reserve Account out of Revenues, Bond proceeds or other legally available funds an amount, together with funds in the Account, at least equal to the Reserve Account Requirement for the Parity Bonds.

Except as hereafter provided in this subsection, the City hereby further covenants and agrees that in the event it issues any Future Parity Bonds it will provide in the ordinance authorizing the issuance of the same for the payment into the Reserve Account out of the proceeds of such Future Parity Bonds, Revenues (or, at the option of the City, out of any other funds on hand and legally available therefor) an amount that, together with the money already on

deposit therein, will be at least equal to the Reserve Account Requirement for all outstanding Parity Bonds and such Future Parity Bonds.

The City further covenants and agrees that after any required deposit has been made into the Reserve Account, it will at all times maintain therein an amount at least equal to the Reserve Account Requirement, as redetermined in each calendar year with respect to the Parity Bonds secured by such Reserve Account. Whenever there is a sufficient amount in the Bond Fund, including all accounts therein, to pay the principal of, premium, if any, and interest on all outstanding Parity Bonds, the moneys in the Reserve Account may be used to pay the principal of, premium, if any, and interest on the Parity Bonds secured thereby. Moneys in the Reserve Account may also be withdrawn to redeem and retire, and to pay the premium, if any, and interest due to such date of redemption, on the outstanding Parity Bonds secured by such Reserve Account, as long as the moneys remaining on deposit in such Reserve Account are at least equal to the Reserve Account Requirement determined with respect to the Parity Bonds then outstanding.

In the event there shall be a deficiency in the Interest Account or the Principal Account, or a deficiency in the Bond Retirement Account to meet the required schedule of payments for amortization of Term Bonds of any issue of Parity Bonds, such deficiency shall be made up from the Reserve Account by the withdrawal of moneys therefrom. If a deficiency still exists immediately prior to an interest payment date and after the withdrawal of cash, the City shall then draw from any Qualified Letter of Credit or Qualified Insurance. Such draw shall be made at such times and under such conditions as the agreement for such Qualified Letter of Credit or such Qualified Insurance shall provide. Any deficiency created in such Reserve Account by reason of any such withdrawal shall then be made up out of Revenues after making necessary

provision for the payments required to be made by subparagraphs First through Third, inclusive, of Section 4.1 of this ordinance.

In making the payments and credits to the Reserve Account required by this Section, 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 this Section to the extent that such payments and credits 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 three paragraphs of this subsection as if the Parity Bonds that remain outstanding had been issued on the date of such notice of cancellation.

E. Priority of Lien of Payments into Bond Fund. The amounts so pledged to be paid into the Interest Account, the Principal Account, the Bond Retirement Account and the Reserve Account from the Revenue Fund are hereby declared to be a lien and charge upon the Revenues equal to the lien and charge upon such Revenues made for the payment of the principal of and interest on the 1992 Bonds, the 1993 Bonds, the 1995 Bonds, the 1997 Bonds, the 1998 Bonds, and any Future Parity Bonds, and prior and superior to all other charges of any kind or nature whatsoever, except for the payment of Operating Expenses.

F. Application and Investment of Moneys in Bond Fund. Money in any account in the Bond Fund shall be invested in Permitted Investments as permitted by law. Investments in the Interest Account, Principal Account and the Bond Retirement Account shall

mature prior to the date on which such money shall be needed for required interest or principal payments. Investments in the Reserve Account shall mature not later than the last maturity of the Bonds secured thereby and not later than five years from the date of investment. All interest earned and income derived by virtue of such investments shall remain in the Bond Fund and be used to meet the required deposits into any account therein.

G. Sufficiency of Revenues. The Council hereby finds that in fixing the amounts to be paid into the Bond Fund out of the Revenues, it has exercised due regard for the Operating Expenses and has not obligated the City to set aside and pay into such Fund a greater amount of such Revenues than in its judgment will be available over and above the Operating Expenses.

Section 4.4 Provision for Defeasance of the Bonds. In the event that money (other than bond insurance proceeds) and/or "Government Obligations," as such obligations are now or may hereafter be defined in Chapter 39.53 RCW, maturing at such time or times and bearing interest to be earned thereon in amounts sufficient to redeem and retire the Bonds or any of them in accordance with their terms are set aside in a special account to effect such redemption or retirement and such money and the principal of and interest on such obligations are irrevocably set aside and pledged for such purpose, then no further payments need be made into the Bond Fund for the payment of the principal of and interest on the Bonds so provided for and such Bonds shall cease to be entitled to any lien, benefit or security of this ordinance except the right to receive the funds so set aside and pledged, and such Bonds shall be deemed not outstanding hereunder.

Within 60 days of any defeasance of Bonds the City shall provide for notice of defeasance of Bonds to registered owners and to each NRMSIR and SID, if any, in accordance with Section 8.10.

Section 4.5 Bond Covenants.

A. Rate Covenant. The City shall establish, maintain and collect rates and charges for the use of the services and facilities of and all commodities sold, furnished or supplied by the System, and shall adjust such rates and charges from time to time so that:

(1) The Revenues collected will at all times be sufficient (a) to pay the Operating Expenses, (b) to pay the principal of and interest on the Parity Bonds, as and when the same shall become due and payable, (c) to make adequate provision for the payment of any Term Bonds, (d) to make when due all payments that the City is obligated to make into any Reserve Account and all other payments that the City is obligated to make pursuant to this ordinance, including payments to any Bond Insurer, and (e) to pay all taxes, assessments or other governmental charges lawfully imposed on the System or the revenue therefrom or payments in lieu thereof and any and all other amounts that the City may now or hereafter become obligated to pay from the Revenues by law or contract; and

(2) The Net Revenues in each Fiscal Year will be at least equal to 1.30 times the Average Annual Debt Service calculated as of December 31 of the preceding calendar year.

(3) For purposes of calculating funds available for meeting the financial requirements of the System, but not for purposes of meeting the requirements of subsections (1) and (2) above, or the requirements of Section 4.6 for the issuance of Future Parity Bonds, (i) there must be added to Net Revenues for any Fiscal Year such amount withdrawn

from the Coverage Stabilization Account and deposited in the General Account, and (ii) there must be subtracted from Net Revenues for any Fiscal Year such amounts as are withdrawn from the General Account and deposited into the Coverage Stabilization Account for such Fiscal Year.

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

C. Payment of Operating Expenses. In making or providing for the monthly payments from the Revenue Fund as required by Section 4.3 hereof, the City shall maintain in the Revenue Fund sufficient moneys to enable the City to meet the Operating Expenses on a current basis.

D. Sale or Disposition of the System. 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 into the Bond Fund of cash or "Government Obligations," as now or hereafter defined in RCW Chapter 39.53, as amended, or its successor statute, if any, sufficient together with interest to be earned thereon to pay the principal of and interest on the then outstanding Bonds, nor will it sell or otherwise dispose of any part of the useful operating properties of the System unless such facilities are replaced or provision is made for payment into the Bond Fund of the greater of:

(1) An amount that will be in the same proportion to the net amount of Bonds then outstanding (defined as the total amount of the outstanding Parity Bonds less the amount of cash and investments in the Bond Fund and accounts therein) that the Net Revenues from the portion of the System sold or disposed of for the preceding year bears to the total Net Revenues for such period; or

(2) An amount that will be in the same proportion to the net principal amount of Parity 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.

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

Notwithstanding any other provision of this subsection, the City may sell or otherwise dispose of any of the works, plant, properties and facilities of the System or any real or personal property comprising a part of the same that shall have become unserviceable, inadequate, obsolete or unfit to be used in the operation of the System, or no longer necessary, material to or useful in such operation, without making any deposit into the Bond Fund.

E. Liens or Encumbrances. The City will not at any time create or permit to accrue or to exist any lien or other encumbrance or indebtedness upon the System or the Revenues or any part thereof, prior or superior to the lien thereon for the payment of the Bonds, and will pay and discharge, or cause to be paid and discharged, any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien or charge upon the Revenues, or any part thereof, or upon any funds in the hands of the City, prior to or superior to the lien of the Bonds, or which might impair the security of the Bonds.

F. Insurance. The City shall, 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 as determined by the City Manager. A program of self insurance against certain risks or as to part of the potential liability for certain risks may be included as part of the City's insurance coverage plan.

In the event of any loss or damage to the properties of the System covered by insurance, the City will (i) with respect to each such loss, promptly repair and reconstruct, to the extent necessary to the proper conduct of the operations of the System, the lost or damaged portion thereof and shall apply the proceeds of any insurance policy or policies covering such loss or damage for that purpose to the extent required therefor, except in the case of loss or damage involving an amount equal to 2% of the value of the net utility plant of the System or more, when such repair and reconstruction is not recommended by the City Manager, and (ii) if the City shall not use the entire proceeds of such insurance to repair or reconstruct such lost or damaged property, such insurance proceeds thereof not so used shall be paid into the Revenue Fund, and if in excess of an amount equal to 2% of the value of the net utility plant of the System for any one loss or damage, shall be used to purchase or redeem Parity Bonds or to acquire or construct extensions, betterments and improvements to the System.

G. Books and Accounts. The City shall keep proper books of account in accordance with any applicable rules and regulations prescribed by the State of Washington. The City shall prepare, and any owner of Bonds may, upon written request, obtain copies of,

balance sheets and profit and loss statements showing in reasonable detail the financial condition of the System as of the close of each year, and the income and expenses of such year, including the amounts paid into the Revenue Fund, the Bond Fund, and into any and all special funds or accounts created pursuant to the provisions of this ordinance, and the amounts expended for maintenance, renewals, replacements, and capital additions to the System.

H. Additions and Improvements. The City will not expend any of the revenues derived by it from the operation of the System or the proceeds of any indebtedness payable from the Revenues for any extensions, betterments or improvements to the System which are not consistent with prudent utility management and which will not properly and advantageously contribute to the conduct of the business of the System in an efficient manner, provided, that to the extent permitted by law, the City may provide commodities, services or facilities free of charge or at a reduced charge in order to carry out a plan adopted by the Council for conservation of water or to benefit elderly, handicapped or poor persons.

I. Covenants Regarding Tax-Exempt Status of the Bonds. The City covenants and agrees that throughout the term of the Bonds no part of the proceeds of the Bonds or any other moneys or obligations held under this ordinance shall at any time be used for any purpose, nor shall the City take any other action, which would cause any Bond to be (i) an "arbitrage bond" under Section 148 of the Internal Revenue Code of 1986, as amended, and the applicable regulations thereunder or (ii) a "private activity bond" under Section 141 of the Internal Revenue Code of 1986, as amended, and the applicable regulations thereunder.

Section 4.6 Future Parity Bonds. Future Parity Bonds may be issued payable from the Bond Fund on a parity with the Bonds and any other outstanding Parity Bonds theretofore issued and secured by an equal charge and lien on the Revenues pledged to said Bond Fund:

First, for the purpose of acquiring, constructing and installing additions and improvements to and extensions of, acquiring necessary equipment for or making necessary repairs, replacements or other capital improvements to the System, or

Second, for the purpose of refunding, or purchasing and retiring prior to their maturity, any outstanding Parity Bonds or other revenue obligations of the System.

A. The City may issue Future Parity Bonds upon compliance with the following conditions:

1. At the time of the issuance of such Future Parity Bonds, there shall be no deficiency in the Bond Fund.

2. In each ordinance authorizing such Future Parity Bonds, provision shall be made for payments into the Reserve Account in accordance with Section 4.3D of this Ordinance.

3. At the time of the issuance of such Future Parity Bonds, the City shall have on file a certificate from a Professional Utility Consultant, not then employed by the City except for the purpose of giving such certificate, showing that the Net Revenue received during the most recent twelve-month period for which financial statements are available within the twenty-four months preceding the date of delivery of such Future Parity Bonds equaled at least 1.3 times the Average Annual Debt Service each calendar year or Fiscal Year thereafter on the then outstanding Parity Bonds, and that the Adjusted Net Revenues to be received each calendar year or Fiscal Year thereafter, will equal at least 1.3 times the Average Annual Debt Service each such calendar year or Fiscal Year, on the Parity Bonds that shall be outstanding in each such calendar year (including the Future Parity proposal to be issued).

The Adjusted Net Revenues shall be the Net Revenues for a period of any twelve consecutive months out of the twenty-four months immediately preceding the date of delivery of such proposed Future Parity Bonds, as adjusted to take into consideration changes in Net Revenues estimated to occur under one or more of the following conditions for each year after such delivery for so long as any Parity Bonds, including the Future Parity Bonds proposed to be issued, shall be outstanding:

(a) Any increase or decrease in Net Revenues that would result if any change in rates and charges adopted by the Council prior to the date of such certificate and subsequent to the beginning of such twelve-month period had been in force during the full twelve-month period;

(b) The additional Net Revenues from any rate increases which have been approved by ordinance of the Council but which are not then in effect.

(c) Any increase or decrease in Net Revenues estimated by such Professional Utility Consultant to result from any additions, betterments and improvements to and extensions of any facilities of the System which (i) become fully operational during such twelve-month period, (ii) were under construction at the time of such certificate, or (iii) will be constructed from the proceeds of the Future Parity Bonds proposed to be issued;

(d) The additional Net Revenues which would have been received if any customers added to the System during such twelve-month period were customers for the entire period.

(e) The additional Net Revenues that may be derived by the City from any users of the System with whom the City has entered into a contract for utility services to be furnished, which revenues have not otherwise been included in Net Revenues.

Such Professional Utility Consultant shall base his certification upon, and his certificate shall have attached thereto, financial statements of the System audited by the State Examiner (unless such an audit is not available for a twelve-month period within the preceding twenty-four months) and certified by the Treasurer, showing income and expenses for the period upon which the same is based.

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

Notwithstanding the foregoing, if Future Parity Bonds are to be issued for the purpose of refunding at or prior to their maturity any part or all of the then outstanding Parity Bonds and the issuance of such refunding Future Parity Bonds results in a debt service savings and does not require an increase of more than \$5,000 in any year for principal and interest on such refunding Future Parity Bonds, the certificate required by subsection A(3) of this Section need not be obtained.

B. Nothing herein contained shall prevent the City from issuing revenue bonds or other obligations which are a charge upon the Revenues junior or inferior to the payments required by this Ordinance to be made out of such Revenues into the Bond Fund and accounts therein to pay and secure the payment of any outstanding Bonds.

C. Nothing herein contained shall prevent the City from issuing revenue bonds to refund maturing Bonds for the payment of which moneys are not otherwise available.

Section 4.7 Arbitrage Rebate. The City will pay the Rebate Amount, if any, to the United States of America at the times and in the amounts necessary to meet the requirements of the Code to maintain the federal income tax exemption for interest payments on the Bonds, in accordance with the Arbitrage and Tax Certification.

ARTICLE V

DEFAULTS AND REMEDIES

Section 5.1 Events of Default. This ordinance and each supplemental ordinance adopted pursuant to Article VII are hereinafter in this Article and in Article VI referred to collectively as "the Ordinance."

The City hereby covenants and agrees with the 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":

A. If the City shall default in the performance of any obligation with respect to payments into the Bond Fund and such default is not remedied within a period of 30 days;

B. If default shall be made in the due and punctual payments 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 proceeding for redemption or otherwise;

C. If default shall be made in the due and punctual payment of any installment of interest on any Bond;

D. 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 ninety (90) days after the City shall have received from the Bondowners Committee or from the owners of not less than twenty percent (20%) in principal amount of the Bonds outstanding, a written notice specifying, and demanding the cure of, such default;

E. If the City shall (except as herein permitted) sell, transfer, assign or convey any properties constituting the System or interests therein, or any part or parts thereof, or

shall make any agreement for such sale or transfer (except as expressly authorized by Section 4.5D hereof);

F. If an order, judgment or decree shall be entered by a court of competent jurisdiction (1) appointing a receiver, trustee or liquidator for the whole or any substantial part of the System, (2) 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 Washington, or (3) assuming custody or control 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 such order, such custody or control shall not be otherwise terminated), within sixty days from the date of entry of such order, judgment or decree;

G. If the City shall (1) admit in writing its inability to pay the debts of the System generally as they become due, (2) file a petition in bankruptcy or seeking a composition of indebtedness under any state or federal bankruptcy or insolvency law, (3) make an assignment for the benefit of its creditors, (4) consent to the appointment of a receiver of the whole or any substantial part of the System, or (5) 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 whole or any substantial part of the System.

Section 5.2 Formation of Bondowners Committee. During the continuance of an Event of Default or following the occurrence of an event that, with the passage of time and the giving of the notice required by Section 5.1D hereof would become an Event of Default, the owners of Parity Bonds representing twenty percent (20%) in principal amount of the Parity Bonds then outstanding may call a bondowners meeting for the purpose of electing a committee

to act on behalf of all owners of Parity Bonds (the "Bondowners Committee"). Such meeting shall be called and the proceedings thereof shall be conducted in the manner provided in Article VI hereof.

At such meeting the owners of Parity Bonds present in person or by proxy may, by a majority of the votes cast, elect one or more persons, who may or may not be owners of Parity Bonds, to the Bondowners Committee which shall act as trustee for all owners of Parity Bonds outstanding (the "Parity Bondowners"), and the Bondowners Committee as such trustee may have and exercise all the rights and powers provided for in this Ordinance to be exercised by the Bondowners Committee. The Parity Bondowners present in person or by proxy at said meeting, or at any adjourned meeting thereof, shall prescribe the manner in which the successors of the persons elected to the Bondowners Committee at such Parity Bondowners meeting shall be elected or appointed, and may prescribe rules and regulations governing the exercise by the Bondowners Committee of the powers conferred upon it herein, and may provide for the termination of the existence of the Bondowners Committee. The members of the Bondowners Committee elected by the Parity Bondowners in the manner herein provided, and their successors, as a committee are hereby declared to be trustees for the owners of all the Bonds then outstanding, and are empowered to exercise in the name of the Bondowners Committee as trustee, all the rights and powers hereinafter conferred on the Bondowners Committee.

Section 5.3 Books of City Open to Inspection. The City covenants that if an Event of Default shall have happened and shall not have been remedied, the books of record and account of the City and all other records relating to the System shall at all times during regular business hours be subject to the inspection and use of the Bondowners Committee and any person owning

at least twenty percent (20%) of the principal amount of Bonds outstanding and of their respective agents and attorneys.

The City covenants that if an Event of Default shall happen and shall not have been remedied, the City will continue to account, as a trustee of an express trust, for all Revenues and other moneys, securities and funds pledged under the Ordinance.

Section 5.4 Payment of Funds to Receiver. The City covenants that if an Event of Default shall happen and shall not have been remedied, the City upon demand of any receiver appointed pursuant to Section 5.5, shall, if it is then lawful to do so, pay over to such receiver (i) forthwith, all moneys, securities, and funds then held by the City and pledged under the Ordinance, and (ii) as promptly as practicable after receipt thereof, all Revenues.

Section 5.5 Possession by Receiver of Properties of the System. At any time after the occurrence of an Event of Default and prior to the curing of such Event of Default the Bondowners Committee, as a matter of right against the City, and without regard to the adequacy of the security for the Bonds, shall, to the extent permitted by law, be entitled to the appointment by a court of competent jurisdiction of a receiver to take possession and control of the business and properties of the System. Such a receiver shall have all such powers as the court or courts making such appointment shall confer, including the power to perform and enforce all contracts, to the same extent that the City shall then be entitled and obligated to do.

Section 5.6 Suits at Law or in Equity. If an Event of Default shall happen and shall not have been remedied, then and in every such case, the Bondowners Committee by its agents and attorneys, shall be entitled and empowered to proceed forthwith to take such needful steps and institute such suits, actions and proceedings at law or in equity for the collection of all sums due in connection with the Bonds and to protect and enforce the rights of the owners of the

Bonds under the Ordinance for the specific performance of any covenant herein contained or in aid of the execution of any power herein granted, or for an accounting against the City as trustee of an express trust, or in the enforcement of any other legal or equitable right as the Bondowners Committee, being advised by counsel, shall deem most effectual to enforce any of the rights of the owners of the Bonds.

Any action, suit or other proceedings instituted by the Bondowners Committee hereunder shall be brought in its name as trustee for the Parity Bondowners and all such rights of action upon or under any of the Bonds or the provisions of this Ordinance may be enforced by the Bondowners Committee without the possession of any of said Bonds, and without the production of the same at any trial or proceedings relative thereto except where otherwise required by law, and the respective owner of said Bonds, by taking and holding the same, shall be conclusively deemed irrevocably to appoint the Bondowners Committee the true and lawful trustee for the respective owner of said Bonds, with authority to institute any such action, suit or proceeding to receive as trustee and deposit in trust any sums becoming distributable for the receipt of such moneys, and to do all acts with respect thereto that the Bondowner himself might have done in person; provided, however, that nothing herein contained shall be deemed to authorize or empower the Bondowners Committee to consent to, accept or adopt, on behalf of any owner of Bonds, any plan or reorganization or adjustment affecting the said Bonds or any right of the owner thereof, or to authorize or empower the Bondowners Committee to vote the claims of the owner thereof in any receivership, insolvency, liquidation, bankruptcy, reorganization or other proceeding to which the City shall be a party; and provided further, however, than any bondowner or bondowners may by mutual agreement transfer title to the Bonds held by him or them to the Bondowners Committee, or may by agreement with other bondowners create or

organize a separate trustee or bondowners committee and may confer upon the Bondowners Committee or such separate trustee or bondowners committee such powers and duties as such agreement or agreements shall provide, and the provisions of this Ordinance shall not be construed as a limitation on the powers and duties which consenting Parity Bondowners may by agreement confer on the Bondowners Committee or such separate trustee or bondowners committee. The Bondowners Committee shall have full powers of substitution and delegation in respect to any of the powers hereby granted.

Section 5.7 Direction of Actions of Bondowners Committee by Owners of Majority of Bonds. The owners of not less than a majority in principal amount of the Bonds at the time outstanding may direct the time, method and place of conducting any proceeding for any remedy available to the Bondowners Committee, or exercising any trust or power conferred upon the Bondowners Committee, provided that the Bondowners Committee shall be provided with reasonable security and indemnity and shall have the right to decline to follow any such direction only (i) if the Bondowners Committee shall be advised by counsel that the action or proceeding so directed may not lawfully be taken; or (ii) if the Bondowners Committee in good faith shall determine that the action or proceeding so directed would involve the Bondowners Committee in personal liability or that the action or proceeding so directed would be unjustly prejudicial to the owners of Bonds not parties to such direction.

Section 5.8 Suits by Individual Bondowners. No owner of any one or more the Bonds shall have any right to institute any action, suit or proceeding at law or in equity for the enforcement of any provision of the Ordinance or the execution of any trust under the Ordinance or for any remedy under the Ordinance unless an Event of Default shall have happened and be continuing, and unless no Bondowners Committee has been created as herein provided, but any

remedy herein authorized to be exercised by the Bondowners Committee may be exercised individually by any Bondowner, in his own name and on his own behalf or for the benefit of all Parity Bondowners, in the event no Bondowners Committee has been created, or with the consent of the Bondowners Committee if such Bondowners Committee has been created; provided, however, that nothing in the Ordinance or in the Bonds contained shall affect or impair the obligation of the City, which is absolute and unconditional, to pay at the respective dates of maturity and places therein expressed the principal of and premium, if any, and interest on the Bonds to the respective owners thereof, or affect or impair the rights of action, which are also absolute and unconditional, of any owner to enforce the payment of his Bonds, or to reduce to judgment his claim against the City for the payment of the principal and interest on his Bonds, without reference to, or consent of, the Bondowners Committee or any other owner of Parity Bonds.

Section 5.9 Waivers of Default. No delay or omission of the Bondowners Committee or of any owner of Bonds to exercise any right or power arising upon the happening of an Event of Default shall impair any right or power or shall be construed to be a waiver of any such Event of Default or to be an acquiescence therein, and every power and remedy given by this Article to the Bondowners Committee or the owners of Bonds may be exercised from time to time and as often as may be deemed expedient by the Bondowners Committee or by such owners.

The Bondowners Committee or the owners of not less than fifty percent (50%) in principal amount of the Parity Bonds at the time outstanding, or their attorneys-in-fact duly authorized, may on behalf of the owners of all of the Parity Bonds waive any past default under the Ordinance and its consequences except a default in the payment of the principal of and

premium, if any, and interest on any of the Bonds. No such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

Section 5.10 Remedies Granted in Ordinance Not Exclusive. No remedy by the terms of the Ordinance conferred upon or reserved to the Bondowners Committee or the owners of the Bonds is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Ordinance or existing at law or in equity or by statute on or after the date of adoption of the Ordinance.

ARTICLE VI

BONDOWNERS MEETING

Section 6.1 Call of Bondowners Meeting. The City, the Bondowners Committee or the owners of not less than twenty percent (20%) in principal amount of the Parity Bonds then outstanding may at any time call a meeting of the owners of the Parity Bonds. Every such meeting shall be held at such place in the City of Vancouver, State of Washington, or in the City of Seattle, State of Washington, 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 Parity Bondowners by the City, the Bondowners Committee or the Parity 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 successive calendar weeks on any day of the week, the date of first publication to be not less than thirty (30) or more than sixty day 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 Parity Bondowners shall, however, be valid without notice if the owners of all

Parity Bonds then outstanding are present in person or by proxy or if notice is waived before or within thirty days after the meeting by those not so present.

Section 6.2 Notice to Parity Bondowners. Except as otherwise provided in this Ordinance, any provision in this Ordinance for the mailing of a notice or other paper to Parity Bondowners shall be fully complied with if it is mailed postage prepaid to each registered owner of any of the Parity Bonds then outstanding at his address, if any, appearing upon the Bond Register of the City, and any provision in this Ordinance contained for publication of a notice or other matter shall require the publication thereof in The Bond Buyer in the City of New York, State of New York (or in lieu of publication in The Bond Buyer, in a daily newspaper printed in the English language and customarily published on each business day and of general circulation in the Borough of Manhattan, the City of New York, State of New York), and also in a daily newspaper printed in the English language and customarily published on each business day and of general circulation in the City of Seattle, State of Washington.

Section 6.3 Proxies; Proof of Ownership of Parity Bonds. Attendance and voting by Parity Bondowners at such meetings may be in person or by proxy. Owners of Parity Bonds may, by an instrument in writing under their hands, appoint any person or persons, with full power of substitution, as their proxy to vote at any meeting for them.

Any owner of Parity Bonds shall be entitled in person or by proxy to attend and vote at such meeting as owner of the Parity Bonds registered in his name without producing such Parity Bonds (unless the Parity Bonds described in such certificate shall be registered in the name of or be produced by some other person at such meeting), 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. All other persons seeking to attend or vote in such meeting must produce the Parity Bonds claimed to be owned or represented at such meeting.

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

Section 6.4 Execution of Instruments by Parity Bondowners. Any request, direction, consent or other instrument in writing required or permitted by the Ordinance to be signed or executed by Parity Bondowners may be in any number of concurrent instruments of similar tenor, and may be signed or executed by such Parity 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 the 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 Parity Bond shall bind every future owner of the same Parity Bond in respect of anything done by the City in pursuance of such request, direction or consent.

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

Section 6.5 Appointment of Officers at Bondowners Meetings. Persons named by the City or elected by the owners of a majority in principal amount of the Parity 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 Chairperson and temporary Secretary of any meeting of Parity Bondowners. A permanent Chairperson and a permanent Secretary of such meeting shall be elected by the owners of a majority in principal amount of the Parity Bonds represented at such meeting in person or by proxy. The permanent Chairperson of the meeting shall appoint two Inspectors of Votes who shall count all votes cast at such meeting, except votes on the election of Chairperson 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 6.6 Quorum at Bondowners Meetings. The owners of not less than the principal amount of the Parity 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 days, notice thereof shall be published by the City at least five days prior to the adjourned date of the meeting.

ARTICLE VII

AMENDMENTS TO ORDINANCE

Section 7.1 Amendments.

A. The Council from time to time and at any time may pass an ordinance or ordinances supplemental hereof, which ordinance or ordinances thereafter shall become a part of the Ordinance, for any one or more or all of the following purposes:

(1) To add to the covenants and agreements of the City in the Ordinance, other covenants and agreements thereafter to be observed, which shall not adversely affect the interests of the owners of any Parity Bonds, or to surrender any right or power herein reserved.

(2) To make such provisions for the purpose of curing any ambiguities or of curing, correcting or supplementing any defective provision contained in the Ordinance or any ordinance authorizing Future Parity Bonds in regard to matters or questions arising under such ordinances as the Council may deem necessary or desirable and not inconsistent with such ordinances and which shall not adversely affect, in any material respect, the interest of the owners of Bonds.

Any such supplemental ordinance may be adopted without the consent of the owners of any Bonds at any time outstanding, notwithstanding any of the provisions of subsection B of this section.

B. With the consent of the owners of not less than sixty-five percent (65%) in aggregate principal amount of the Bonds at the time outstanding, the Council may pass an ordinance or ordinances supplemental hereto for the purpose of adding any provisions to or

changing in any manner or eliminating any of the provisions of the Ordinance or of any supplemental ordinance; provided, however, that no such supplemental ordinance shall:

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

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

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

C. Upon the adoption of any supplemental ordinance pursuant to the provisions of this Section, the Ordinance shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations of the City under the Ordinance and all owners of Bonds outstanding hereunder shall thereafter be determined, exercised and enforced thereunder, subject in all respects to such modifications and amendments, and all terms and conditions of any such supplemental ordinance shall be deemed to be part of the terms and conditions of the Ordinance for any and all purposes.

D. Bonds executed and delivered after the execution of any supplemental ordinance passed pursuant to the provisions of this Section may have a notation as to any matter provided for in such supplemental ordinance, and if such supplemental ordinance shall so provide, new Bonds so modified as to conform, in the opinion of the Council, to any

modification of the Ordinance contained in any such supplemental ordinance, may be prepared and delivered without cost to the owners of any affected Bonds then outstanding, upon surrender for cancellation of such Bonds in equal aggregate principal amounts.

Section 7.2 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 Article VII 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 Parity 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 Parity 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 Chairperson 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 matter therein stated. If the ordinance of the City making such amendment shall be approved by a resolution duly adopted at such meeting of Parity Bondowners by the affirmative vote of the owners of the required percentages of Parity Bonds, a notice stating that a resolution approving such amendment has been so adopted shall be mailed by the City to each Parity Bondowner who has requested such notice (but failure so to mail copies of such notice shall not affect the validity of such resolution) and shall be published at least once in the manner provided in Section 6.2 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, the paying agents, and the owners of all Parity Bonds at the expiration of thirty days after the publication of the notice provided for in this Section, except in the event of a final decree of a 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 and any paying agents during such thirty 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 Parity 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 Parity Bondowners under any of the provisions of the Ordinance.

Section 7.3 Alternate Method of Obtaining Approval of Amendments. The City may at any time adopt an ordinance amending the provisions of the Ordinance, or of any Parity 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 Parity Bondowners consent thereto shall be mailed by the City to the Parity Bondowners and notice that the City is requesting Parity Bondowners to consent to such amendment shall be published at least once in the manner provided in Section 6.2 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 Parity Bonds specified in Article VII 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 Parity Bonds for which such consent is given. A certificate or certificates of the Clerk of the City that 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 Parity Bonds described in such certificate or certificates. Any such consent shall be binding upon the owner of the Parity Bonds giving such consent and on every subsequent owner of such Parity 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 Parity Bonds and will be effective as provided in this Section may be given to the Parity Bondowners by mailing such notice to the Parity Bondowners, and shall be given by publishing the same at least once in the manner provided in Section 6.2 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 Parity Bonds at the expiration of thirty 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 7.4 Amendment of Ordinance in Any Respect by Approval of All Parity Bondowners. Notwithstanding anything contained in the foregoing provisions of this Article, the rights and obligations of the City and of the owners of the Parity Bonds, and the terms and provisions of the Parity 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 Parity Bonds then outstanding at a meeting of Parity 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 Parity Bonds then outstanding, such consent to be given as provided in Section 7.3, 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 Parity Bondowners.

Section 7.5 Exclusion of Parity Bonds Owned by City. Parity 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 Parity Bonds in the Ordinance provided for, and shall not be entitled to vote or consent or take any other action in the Ordinance provided for.

ARTICLE VIII

MISCELLANEOUS

Section 8.1 Severability. If any one or more of the covenants or agreements provided in this ordinance to be performed on the part of the City shall be declared by any court of competent jurisdiction to be contrary to law, then such covenant or covenants, agreement or agreements, shall be null and void and shall be deemed separable from the remaining covenants and agreements in this ordinance and shall in no way affect the validity of the other provisions of this ordinance or of any Bonds.

Section 8.2 General Authorization. The Mayor and Budget Manager, and each of the other appropriate officers, agents and representatives 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 8.3 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 Washington, as amended and supplemented. In consideration of the purchase and acceptance of the Bonds by those who shall own the same from time to time, the provisions of this ordinance 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 covenant 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 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 8.4 Benefits of Ordinance Limited to City, Bondowners and Paying Agents. Except as provided in Section 8.5, 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 8.5 Bond Insurance. In accordance with the offer of the Purchaser to purchase the Bonds, the Council hereby approves the commitment of Financial Guaranty Insurance

Company ("FGIC") to provide a policy of municipal bond insurance guaranteeing the payment when due of principal of and interest on the Bonds (the "Bond Insurance Policy"). The Budget Manager is hereby authorized to execute such commitment on behalf of the City. The Council further authorizes and directs all proper officers, agents, attorneys and employees of the City to cooperate with FGIC in preparing such additional agreements, certificates, and other documentation on behalf of the City, consistent with this ordinance, as shall be required by such commitment or as shall be necessary or advisable in providing for the Bond Insurance Policy, and the Budget Manager is authorized to execute such agreements, certificates and documentation and bind the City thereby in consideration of receipt of such policy.

Section 8.6 Undertaking to Provide Ongoing Disclosure.

A. Contract/Undertaking. This section constitutes the City's written undertaking for the benefit of the owners of the Bonds as required by Section (b)(5) of the Rule.

B. Financial Statements/Operating Data. The City agrees to provide or cause to be provided to each NRMSIR and to the SID, if any, in each case as designated by the Commission in accordance with the Rule, the following annual financial information and operating data for the prior fiscal year (commencing in 2000 for the fiscal year ended December 31, 1999):

- (1) Annual financial statements, which statements may or may not be audited, showing year-end fund balances for the System prepared in accordance with the Budget Accounting and Reporting System prescribed by the Washington State Auditor pursuant to RCW 43.09.200 (or any successor statute) and generally of the type included in the official statement for the Bonds under the heading "Historical Operating Results";

(2) Updated financial information and operating regarding customers, rates, revenues and expenses, and debt of the System generally in the form set forth in the section of the official statement for the Bonds entitled "The System" under the following tables: "Historical Operating Statistics," "Water Rates and Charges," "Historical Sewer Customers," "Sewer Rates and Charges," and "Debt Information: Schedule of System Debt Service."

The financial information and operating data described in item (2) shall be required only to the extent that such information is not included in the annual financial statements.

Such annual information and operating data described above shall be provided on or before nine months after the end of the City's fiscal year. The City's fiscal year currently ends on December 31. The City may adjust such fiscal year by providing written notice of the change of fiscal year to each then existing NRMSIR and the SID, if any. In lieu of providing such annual financial information and operating data, the City may cross-reference to other documents provided to the NRMSIR, the SID or to the Commission and, if such document is a final official statement within the meaning of the Rule, available from the MSRB.

If not provided as part of the annual financial information discussed above, the City shall provide the City's audited annual financial statement prepared in accordance with the Budget Accounting and Reporting System prescribed by the Washington State Auditor pursuant to RCW 43.09.200 (or any successor statute) when and if available to each then existing NRMSIR and the SID, if any.

C. Material Events. The City agrees to provide or cause to be provided, in a timely manner, to the SID, if any, and to each NRMSIR or to the MSRB notice of the occurrence of any of the following events with respect to the Bonds, if material:

- Principal and interest payment delinquencies;
- Non-payment related defaults;
- Unscheduled draws on debt service reserves reflecting financial difficulties;
- Unscheduled draws on credit enhancements reflecting financial difficulties;
- Substitution of credit or liquidity providers, or their failure to perform;
- Adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- Modifications to rights of owners;
- Optional, contingent or unscheduled Bond calls other than scheduled sinking fund redemptions for which notice is given pursuant to Exchange Act Release 34-23856;
- Defeasances;
- Release, substitution or sale of property securing the repayment of the Bonds; and
- Rating changes.

Solely for purposes of information, but without intending to modify this undertaking, the City will state in its Preliminary and Final Official Statements that no property secures the payment of the Bonds.

D. Notice Upon Failure to Provide Financial Data. The City agrees to provide or cause to be provided, in a timely manner, to each NRMSIR or to the MSRB and to the SID, if any, notice of its failure to provide the annual financial information described in subsection B. above on or prior to the date set forth in subsection B. above.

E. Termination/Modification. The City's obligations to provide annual financial information and notices of material events shall terminate upon the legal defeasance, prior redemption, or payment in full of all of the Bonds. This section, or any provision hereof, shall be null and void if the City (1) obtains an opinion of nationally recognized bond counsel to the effect that those portions of the Rule which require this section, or any such provision, are invalid, have been repealed retroactively or otherwise do not apply to the Bonds; and (2) notifies each then existing NRMSIR and the SID, if any, of such opinion and the cancellation of this section. Notwithstanding any other provision of this ordinance, the City may amend this Section 8.6, and any provision of this Section 8.6 may be waived, with an approving opinion of nationally recognized bond counsel and in accordance with the Rule. In the event of any amendment or waiver of a provision of this Section 8.6, the City shall describe such amendment in the next annual report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for

a material event under Subsection C., and (ii) the annual report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

F. Bond Owner's Remedies Under this Section. A Registered Owner's or Beneficial Owner's right to enforce the provisions of this section shall be limited to a right to obtain specific enforcement of the City's obligations hereunder, and any failure by the City to comply with the provisions of this undertaking shall not be a default with respect to the Bonds under this ordinance. For purposes of this section, "Beneficial Owner" means any person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds, including persons holding Bonds through nominees or depositories.

Section 8.7 Article and Section Headings; Table and Contents. The headings or titles of the several Articles and Sections hereof, and any table of contents appended hereto, shall be solely for convenience of reference and shall not affect the meaning or construction, interpretation or effect of this Ordinance.

Section 8.8 Prior Acts. All acts taken pursuant to the authority of this ordinance but prior to its effective date are hereby ratified and confirmed.

Section 8.9 Repealer. Any resolution, ordinance or proceeding of the City, or any part thereof, inconsistent with the provisions of this ordinance is hereby repealed to the extent of such conflict.

Section 8.10 Effective Date of Ordinance. This ordinance shall be in effect immediately upon its passage.

PASSED by the City Council of the City of Vancouver, Washington, and approved by its Mayor at a regular meeting of the Council, this 25th day of October, 1999.

Read first time:

October 11, 1999

PASSED by the following vote:

Ayes: Councilmembers

Nays: Councilmembers

Absent: Councilmembers

Besserman, Jollota, Moeller, Harris,
Burkman, and Mayor Pollard
Tonkovich

None

Read second time:

October 25,

PASSED by the following vote:

Ayes: Councilmembers

Nays: Councilmembers

Absent: Councilmembers

Besserman, Tonkovich, Jollota, Moeller,
Harris, Burkman, and Mayor Pollard

None

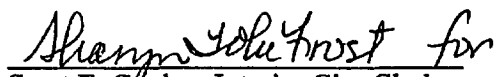
None

SIGNED this 25th day of October, 1999.




Royce E. Pollard, Mayor

ATTEST:



Scott E. Cooley, Interim City Clerk

Approved as to form:



Ted H. Gathe, City Attorney

EXHIBIT A

Project Description

The proceeds of the Bonds shall be used to pay a portion of the costs of the following projects (costs are estimates):

WATER:

1.	Water Station improvements	\$ 2,180,000
2.	Wellfield development	\$ 1,125,000
3.	Water Distribution lines	\$ 4,186,000

SEWER:

1.	Sewer Collection lines	\$ 7,289,000
2.	Septic Tank elimination program	\$ 2,100,000
3.	Treatment Plant expansion	\$ 16,100,000
4.	Andresen Sewage Pump Station	\$ 8,400,000
5.	Southside Sewer Diversion project	\$ <u>1,500,000</u>

Total	\$ <u>42,880,000</u>
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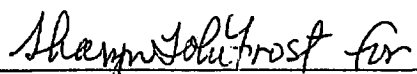
CLERK'S CERTIFICATE

I, the undersigned, the duly chosen, qualified and acting Clerk of the City of Vancouver, Washington, and keeper of the records of the Council of the City (the "Council"), DO HEREBY CERTIFY:

1. That the attached ordinance is a true and correct copy of Ordinance No. M-3463 of the City (the "Ordinance"), as finally passed at a meeting of the Council held on the 25th day of October, 1999, and duly recorded in my office.

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

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the official seal of the City this 25th day of October, 1999.



Scott E. Cooley, Interim City Clerk,
City of Vancouver, Washington

(SEAL)

ORDINANCE NO. M- 3644

AN ORDINANCE OF THE CITY OF VANCOUVER, WASHINGTON, AUTHORIZING THE ISSUANCE OF WATER AND SEWER REVENUE REFUNDING BONDS OF THE CITY IN THE PRINCIPAL AMOUNT OF NOT TO EXCEED \$29,000,000 TO PROVIDE FUNDS FOR REFUNDING CERTAIN OUTSTANDING WATER AND SEWER REVENUE BONDS OF THE CITY AND TO PAY COSTS OF ISSUANCE; ESTABLISHING CERTAIN COVENANTS; RESERVING THE RIGHT TO ISSUE REVENUE BONDS ON A PARITY WITH THE BONDS HEREIN AUTHORIZED UPON COMPLIANCE WITH CERTAIN CONDITIONS; AUTHORIZING THE APPOINTMENT OF AN ESCROW AGENT AND THE EXECUTION OF AN ESCROW AGREEMENT RELATED TO SUCH REFUNDING; PROVIDING THE FORM AND TERMS OF SAID BONDS; AUTHORIZING A PRELIMINARY OFFICIAL STATEMENT; PROVIDING FOR THE DISPOSITION OF THE PROCEEDS OF SALE; APPROVING AN AGREEMENT FOR ONGOING DISCLOSURE; DELEGATING AUTHORITY TO APPROVE THE FINAL TERMS OF SAID BONDS; AND REPEALING ORDINANCE NO. M-3625.

WHEREAS, the City of Vancouver, Washington (the "City") now owns and operates a combined water and sewer system (the "System"); and

WHEREAS, the City issued and now has outstanding the following series of water and sewer revenue bonds, each being payable on parity from the revenues of the System:

Series	Authorizing Ordinance	Original Principal Amount	Outstanding Principal Amount
1993	M-3072	\$38,000,000	\$14,955,000
1995	M-3199	33,000,000	2,955,000
1997	M-3315	63,100,000	54,185,000
1998	M-3390	27,260,000	26,850,000
1999	M-3463	33,075,000	31,700,000
2002	M-3605	11,310,000	11,310,000

(collectively, the "Outstanding Parity Bonds"); and

WHEREAS, the Outstanding Parity Bonds issued under date of November 1, 1999 mature in principal amounts and bear interest as follows:

Maturity Date (June 1)	Principal Amount	Interest Rate
2004	\$ 950,000	5.125%
2005	1,005,000	5.125
2006	1,060,000	5.125
2007	1,125,000	5.250
2008	1,185,000	5.250
2009	1,250,000	5.300
2010	1,335,000	5.500
2011	1,405,000	5.750
2012	1,500,000	5.750
2013	720,000	5.600
2014	2,530,000	6.000
2015	2,695,000	6.000
2020	14,940,000	6.000

(the "1999 Bonds"); and

WHEREAS, the 1999 Bonds maturing on and after June 1, 2010 (hereinafter defined as the "Refunded Bonds"), are subject to optional redemption, in whole or in part, on any date on and after June 1, 2009, at a price of par plus interest accrued to the date of redemption; and

WHEREAS, the respective ordinances authorizing the issuance of the Outstanding Parity Bonds permit the issuance of additional bonds on a parity with the Outstanding Parity Bonds for refunding purposes if certain conditions are met; and

WHEREAS, it appears that the Refunded Bonds may now be refunded at lower interest rates, thereby yielding savings to the City's ratepayers;

WHEREAS, the City passed and approved Ordinance No. M-3625 on July 21, 2003 providing for the issuance of the Bonds; and

WHEREAS, the closing for the issuance of the Bonds was delayed by several months due to unforeseen circumstances; and

WHEREAS, it would be in the best interest of the City to repeal Ordinance No. M-3625 and replace it with this ordinance;

NOW, THEREFORE, BE IT ORDAINED BY THE CITY OF VANCOUVER, WASHINGTON as follows:

Section 1. Definitions. As used in this ordinance the following definitions shall apply unless a different meaning clearly appears from the context:

Acquired Obligations means the Government Obligations acquired by the City under the terms of this ordinance and the Escrow Agreement to effect the defeasance and refunding of the Refunded Bonds.

Adjusted Net Revenues shall have the meaning given such term in Section 10(a)(3) of this ordinance.

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

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

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

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

last Fiscal Year or calendar year in which the sum of (i) the principal amount of Serial Bonds maturing in such Fiscal Year plus (ii) the Sinking Fund Requirement for such Fiscal Year, exceeds 4% of the principal amount of Parity Bonds outstanding as of the date of determination.

Beneficial Owner means any person that has or shares the power, directly or indirectly to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

Bond Fund means the Water and Sewer Revenue Bond Fund established pursuant to Section 3.2 of Ordinance No. M-2572. The Bond Fund has an Interest Account, a Principal Account, a Reserve Account and a Bond Retirement Account.

Bond Insurance Policy means the municipal bond new issue insurance policy issued by the Insurer that guarantees payment of principal of and interest on the Bonds.

Bond Purchase Contract means the purchase contract for the Bonds between the City and the Underwriter entered into pursuant to the terms of Section 13 of this ordinance.

Bond Register means the registration books showing the name, address and tax identification number of each Registered Owner of the Bonds, maintained pursuant to Section 149(a) of the Code.

Bond Registrar means the fiscal agency of the State of Washington, for the purposes of registering and authenticating the Bonds, maintaining the Bond Register, effecting transfer of ownership of the Bonds, and paying the principal of, premium, if any, and interest on the Bonds.

Bond Retirement Account means the account of that name created in the Bond Fund to amortize the principal of Term Bonds.

Bonds means the City of Vancouver, Washington Water and Sewer Revenue Refunding Bonds, 2004 issued pursuant to this ordinance.

Bond Year means each one-year period that ends on the date selected by the City. The first and last Bond Years may be short periods. If no day is selected by the City before the earlier of the final maturity date of the Bonds or the date that is five years after the date of issuance of the Bonds, Bond Years end on each anniversary of the date of issue and on the final maturity date of the Bonds.

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

City Manager means the City Manager of the City, or any successor to the functions of the City Manager.

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

Commission means the Securities and Exchange Commission.

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

Coverage Stabilization Account means the account of that name created pursuant to Section 4.1 of Ordinance No. M-3315.

DTC means The Depository Trust Company, New York, New York, a limited purpose trust company organized under the laws of the State of New York, as depository for the Bonds pursuant to Section 4 hereof.

Escrow Agent means the financial institution selected by the Treasurer as provided in Section 15 of this ordinance.

Escrow Agreement means the Escrow Deposit Agreement to be dated as of the date of closing and delivery of the Bonds substantially in the form attached hereto as Exhibit A.

Event of Default with respect to the Bonds, means an Event of Default as defined in Section 18 hereof.

Fiscal Year means the fiscal year used by the City at any time.

Future Parity Bonds means any water and sewer revenue bonds to be issued in the future as Parity Bonds.

Future Parity Bond Coverage Test means Adjusted Net Revenues to be received each calendar year or Fiscal Year after the issuance of a series of Future Parity Bonds equal or greater than 1.3 times the Average Annual Debt Service in each such calendar year or Fiscal Year, on the Parity Bonds that shall be outstanding in each such calendar year or Fiscal Year (including the Future Parity Bonds proposed to be issued).

General Account means the account of that name in the Revenue Fund, created pursuant to Section 4.1 of Ordinance No. M-3315.

Government Obligations means those obligations now or hereafter defined as such in chapter 39.53 RCW.

Insurer means Financial Guaranty Insurance Company, a New York stock insurance company, or any successor thereto or assignee thereof, as issuer of a Bond Insurance Policy for the Bonds.

Letter of Representations means the blanket issuer letter of representations from the City to DTC.

Maximum Annual Debt Service means, with respect to any issue of Parity Bonds, the maximum amount of Annual Debt Service that will become due in any future calendar year on such Parity Bonds then outstanding.

MSRB means the Municipal Securities Rulemaking Board.

Net Proceeds, when used with reference with the Bonds, means the principal amount of the Bonds, plus accrued interest and original issue premium, if any, and less original issue discount, if any.

Net Revenues means the Revenues less the Operating Expenses.

1999 Bond Ordinance means Ordinance No. M-3463 adopted by the City Council on October 25, 1999.

1999 Bonds means the Water and Sewer Revenue Bonds, 1999, of the City issued under date of November 1, 1999, as more particularly described in the recitals of this ordinance.

NRMSIR means a nationally recognized municipal securities information repository.

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

Outstanding Parity Bonds means the parity water and sewer revenue bonds of the City identified in the recitals to this ordinance.

Parity Bonds means the Outstanding Parity Bonds, the Bonds and any Future Parity Bonds. "Parity Bonds" may include bonds, notes, warrants, certificates of indebtedness or any other evidence of indebtedness.

Permitted Investments means any investment that is legal and authorized for funds of the City.

Private Person means any natural person engaged in a trade or business or any trust, estate, partnership, association, company or corporation.

Private Person Use means the use of property in a trade or business by a Private Person if such use is other than as a member of the general public. Private Person Use includes ownership of the property by the Private Person as well as other arrangements that transfer to the Private Person the actual or beneficial use of the property (such as a lease, management or incentive payment contract or other special arrangement) in such a manner as to set the Private Person apart from the general public. Use of property as a member of the general public includes attendance by the Private Person at municipal meetings or business rental of property to the Private Person on a day-to-day basis if the rental paid by such Private Person is the same as the rental paid by any Private Person who desires to rent the property. Use of property by nonprofit community groups or community recreational groups is not treated as Private Person Use if such use is incidental to the governmental uses of property, the property is made available for such use by all such community groups on an equal basis and such community groups are charged only a *de minimis* fee to cover custodial expenses.

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.

Qualified Insurance means any unconditional 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, which insurance company or service corporation is rated in one of the two highest rating categories by either Moody's Investors Service or Standard & Poor's Ratings Services, whichever rating agency then maintains a rating on the Bonds, or, if both of such rating agencies

have ratings on the Bonds outstanding, then such company or bank shall be so rated by both agencies, provided, that, as of the time of issuance of such policy or surety bond, such insurance company or companies maintain a policyowner's surplus in excess of \$500,000,000.

Qualified Letter of Credit means any irrevocable letter of credit issued by a bank for the account of the City and for the benefit of the owners of any of the Parity 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 by either Moody's Investors Service or Standard & Poor's Ratings Services, whichever rating agency then maintains a rating on the Parity Bonds, or, if both of such rating agencies have ratings on the Parity Bonds outstanding, then such company or bank shall be so rated by both agencies.

Refunded Bonds means any or all of the 1999 Bonds maturing on and after June 1, 2010.

Refunding Candidates means the 1999 Bonds maturing on and after June 1, 2010.

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

Reserve Account means the account of that name created in the Bond Fund to secure the payment of the principal of and interest on any Parity Bonds.

Reserve Account Requirement means, with respect to any issue of Parity Bonds, the lesser of (a) maximum Annual Debt Service on all outstanding Parity Bonds, and (b) 125% of Average Annual Debt Service on all outstanding Parity Bonds; provided, that the amount required to be deposited hereunder with respect to any Future Parity Bonds in order to meet the Reserve Fund Requirement shall not exceed 10% of the net proceeds of such Future Parity Bonds under the Code.

Revenue Fund means the Water and Sewer Revenue Fund of the City created by Section 4 of Ordinance No. M-93 of the City.

Revenues means all income, receipts and revenues received 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 or facilities of the System, together with the investment income earned on moneys held in any fund or account of the City including the Bond Fund, in connection with the ownership and operation of the System, and any contributions from other funds of the City or other sources, including individual and government agencies, but excluding investment income restricted to a particular purpose inconsistent with its use for the payment of debt service generally, in connection with the ownership and operation of the System. From and after the date that all Outstanding Parity Bonds issued prior to 2002 are no longer outstanding, "Revenues" shall include any withdrawal from the Coverage Stabilization Account and shall exclude transfers to the Coverage Stabilization Account as described in Section 6(b)(i) of this ordinance for purposes of demonstrating compliance with the rate covenant in Section 8(a), but not for purposes of demonstrating compliance with the Future Parity Bond Coverage Test.

Rule means the Securities and Exchange Commission's Rule 15c2-12 under the Securities Exchange Act of 1934, as amended.

Savings Target means a dollar amount equal to at least three percent (3.0%) of the outstanding principal of the Refunded Bonds.

Serial Bonds means Parity Bonds other than Term Bonds.

SID means a state information depository for the State of Washington (if one is created).

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

System means the existing sanitary sewage collection and treatment system of the City, together with the existing water supply and distribution system and the existing storm drainage facilities of the City, as such systems now exist and as they may later be added to, extended and improved, for as long as any Parity Bonds remain outstanding. The City Council may, in its discretion, hereafter determine by ordinance to include facilities for the collection, processing of and disposal of solid waste as a part of the System.

Term Bonds means any Parity Bonds, identified as such in the ordinance authorizing the issuance thereof or the bond purchase contract with respect thereto, that are subject to mandatory redemption, the payment of which is provided for by a requirement for mandatory deposits of money into the Bond Retirement Account.

Treasurer means the Treasurer of the City or the person succeeding to the functions currently performed by the Treasurer.

Underwriter means Piper Jaffray & Co., Seattle, Washington.

Rules of Interpretation. In this ordinance, unless the context otherwise requires:

(a) The terms "hereby," "hereof," "hereto," "herein," "hereunder" and any similar terms, as used in this ordinance, refer to this ordinance as a whole and not to any particular article, section, subdivision or clause hereof, and the term "hereafter" shall mean after, and the term "heretofore" shall mean before, the date of this ordinance;

(b) Words of the masculine gender shall mean and include correlative words of the feminine and neuter genders and words importing the singular number shall mean and include the plural number and vice versa;

(c) Words importing persons shall include firms, associations, partnerships (including limited partnerships), trusts, corporations and other legal entities, including public bodies, as well as natural persons;

(d) Any headings preceding the text of the several sections of this ordinance, and any table of contents or marginal notes appended to copies hereof, shall be solely for convenience of reference and shall not constitute a part of this ordinance, nor shall they affect its meaning, construction or effect;

(e) All references herein to "articles," "sections" and other subdivisions or clauses are to the corresponding articles, sections, subdivisions or clauses hereof:

(f) Words importing the singular number include the plural number and vice versa.

Section 2. Compliance with Parity Conditions The Council hereby finds and determines, as required by Section 4.6 of Ordinance No. M-3072, Section 4.6 of Ordinance No. M-3199, Section 4.6 of Ordinance No. M-3315, Section 4.6 of Ordinance No. M-3390, Section 4.6 of Ordinance No. M-3463 and Section 10 of Ordinance No. M-3605, as follows:

First, that the Bonds are being issued for the purpose of refunding Outstanding Parity Bonds;

Second, that at the time of the adoption of this ordinance and at the time of the issuance and delivery of the Bonds there is not nor will there be any deficiencies in the Bond Fund;

Third, that by Section 7 of this ordinance the City has covenanted and provided that it will maintain in the Reserve Account created in said section the amounts required by Section 4.3D of Ordinance No. M-3072, Section 4.3D of Ordinance No. M-3199, Section 4.3D of Ordinance No. M-3315, Section 4.3D of Ordinance No. M-3390, Section 4.3D of Ordinance No. M-3463 and Section 7 of Ordinance No. M-3605 to be paid into and maintained in said Reserve Account for the purpose of securing the payment of the principal of and interest on the Bonds; and

Fourth, that the issuance of the Bonds will result in a debt service savings for the System and does not require an increase of more than \$5,000 in any year for principal of and interest on the Bonds over and above the payments that were required to be made for the Refunded Bonds.

The conditions contained in Section 4.6 of Ordinance No. M-3072, Section 4.6 of Ordinance No. M-3199, Section 4.6 of Ordinance No. M-3315, Section 4.6 of Ordinance No. 3390, Section 4.6 of Ordinance No. M-3463 and Section 10 of Ordinance No. M-3605 having been complied with or assured, the payments required herein to be made out of the Revenue Fund into the Bond Fund and the Reserve Account to pay and secure the payment of the principal of and interest on the Bonds shall constitute a lien and charge upon the money in the Revenue Fund equal in rank with the lien and charge thereon for the payments required to be made for the Outstanding Parity Bonds.

Section 3. Authorization of Bonds and Bond Details. For the purpose of refunding the Refunded Bonds and paying the costs of issuance related thereto, including, but not limited to, the payment of the premium cost for a Bond Insurance Policy, and thereby effecting a substantial savings to the City and its taxpayers, the City shall issue its water and sewer revenue refunding bonds in the aggregate principal amount of not to exceed \$29,000,000 (the "Bonds").

The Bonds shall be special fund obligations of the City, shall be designated "City of Vancouver, Washington, Water and Sewer Revenue Refunding Bonds, 2004"; shall be dated as of their date of delivery; shall be fully registered as to both principal and interest; shall be in the denomination of \$5,000 each, or any integral multiple thereof, provided that no Bond shall represent more than one maturity; shall be numbered separately in such manner and with any additional designation as the Bond Registrar deems necessary for purposes of identification; and shall bear interest from their date, payable on June 1, 2004, and semiannually thereafter on the first days of each June and December and shall mature on June 1 in the years and principal amounts set forth and approved in the Bond Purchase Contract executed by the City Manager pursuant to Section 13 of this ordinance.

The Bonds shall be obligations only of the Bond Fund and shall be payable and secured as provided herein. The Bonds shall not be general obligations of the City.

Section 4. Registration, Exchange and Payments.

(a) *Bond Registrar/Bond Register.* The City hereby specifies and adopts the system of registration approved by the Washington State Finance Committee from time to time through the appointment of state fiscal agencies. The City shall cause a bond register to be maintained by the Bond Registrar. So long as any Bonds remain outstanding, the Bond Registrar shall make all necessary provisions to permit the exchange or registration or transfer of Bonds at its principal corporate trust office. The Bond Registrar may be removed at any time at the option of the City upon prior notice to the Bond Registrar and a successor Bond Registrar appointed by the City. No resignation or removal of the Bond Registrar shall be effective until a successor shall have been appointed and until the successor Bond Registrar shall have accepted the duties of the Bond Registrar hereunder. The Bond Registrar is authorized, on behalf of the City, to

authenticate and deliver Bonds transferred or exchanged in accordance with the provisions of such Bonds and this ordinance and to carry out all of the Bond Registrar's powers and duties under this ordinance. The Bond Registrar shall be responsible for its representations contained in the Certificate of Authentication of the Bonds.

(b) *Registered Ownership.* The City and the Bond Registrar, each in its discretion, may deem and treat the Registered Owner of each Bond as the absolute owner thereof for all purposes (except as provided in Section 19 of this ordinance), and neither the City nor the Bond Registrar shall be affected by any notice to the contrary. Payment of any such Bond shall be made only as described in Section 4(h) hereof, but such Bond may be transferred as herein provided. All such payments made as described in Section 4(h) shall be valid and shall satisfy and discharge the liability of the City upon such Bond to the extent of the amount or amounts so paid.

(c) *DTC Acceptance/Letters of Representations.* The Bonds initially shall be held in fully immobilized form by DTC acting as depository. To induce DTC to accept the Bonds as eligible for deposit at DTC, the City has executed and delivered to DTC a Blanket Issuer Letter of Representations. Neither the City nor the Bond Registrar will have any responsibility or obligation to DTC participants or the persons for whom they act as nominees (or the participants of any successor depository or those for who any such successor acts as nominee) with respect to the Bonds in respect of the accuracy of any records maintained by DTC (or any successor depository) or any DTC participant, the payment by DTC (or any successor depository) or any DTC participant of any amount in respect of the principal of or interest on Bonds, any notice which is permitted or required to be given to Registered Owners under this ordinance (except such notices as shall be required to be given by the City to the Bond Registrar

or to DTC (or any successor depository)), or any consent given or other action taken by DTC (or any successor depository) as the Registered Owner. For so long as any Bonds are held in fully-immobilized form hereunder, DTC or its successor depository shall be deemed to be the Registered Owner for all purposes hereunder, and all references herein to the Registered Owners shall mean DTC (or any successor depository) or its nominee and shall not mean the owners of any beneficial interest in such Bonds.

If any Bond shall be duly presented for payment and funds have not been duly provided by the City on such applicable date, then interest shall continue to accrue thereafter on the unpaid principal thereof at the rate stated on such Bond until it is paid.

(d) *Use of Depository.*

(i) The Bonds shall be registered initially in the name of "Cede & Co.", as nominee of DTC, with one Bond maturing on each of the maturity dates for the Bonds in a denomination corresponding to the total principal therein designated to mature on such date. Registered ownership of such immobilized Bonds, or any portions thereof, may not thereafter be transferred except (A) to any successor of DTC or its nominee, provided that any such successor shall be qualified under any applicable laws to provide the service proposed to be provided by it; (B) to any substitute depository appointed by the Treasurer pursuant to subsection (ii) below or such substitute depository's successor; or (C) to any person as provided in subsection (iv) below.

(ii) Upon the resignation of DTC or its successor (or any substitute depository or its successor) from its functions as depository or a determination by the Treasurer to discontinue the system of book entry transfers through DTC or its successor (or any substitute depository or its successor), the Treasurer may hereafter appoint a substitute depository. Any

such substitute depository shall be qualified under any applicable laws to provide the services proposed to be provided by it.

(iii) In the case of any transfer pursuant to clause (A) or (B) of subsection (i) above, the Bond Registrar shall, upon receipt of all outstanding Bonds, together with a written request of the Treasurer, issue a single new Bond for each maturity then outstanding, registered in the name of such successor or such substitute depository, or their nominees, as the case may be, all as specified in such written request of the Treasurer.

(iv) In the event that (A) DTC or its successor (or substitute depository or its successor) resigns from its functions as depository, and no substitute depository can be obtained, or (B) the Treasurer determines that it is in the best interest of the beneficial owners of the Bonds that such owners be able to obtain such bonds in the form of Bond certificates, the ownership of such Bonds may then be transferred to any person or entity as herein provided, and shall no longer be held in fully-immobilized form. The Treasurer shall deliver a written request to the Bond Registrar, together with a supply of definitive Bonds, to issue Bonds as herein provided in any authorized denomination. Upon receipt by the Bond Registrar of all then outstanding Bonds together with a written request of the Treasurer to the Bond Registrar, new Bonds shall be issued in the appropriate denominations and registered in the names of such persons as are requested in such written request.

(e) *Registration of Transfer of Ownership or Exchange; Change in Denominations.* The transfer of any Bond may be registered and Bonds may be exchanged, but no transfer of any such Bond shall be valid unless it is surrendered to the Bond Registrar with the assignment form appearing on such Bond duly executed by the Registered Owner or such Registered Owner's duly authorized agent in a manner satisfactory to the Bond Registrar. Upon

such surrender, the Bond Registrar shall cancel the surrendered Bond and shall authenticate and deliver, without charge to the Registered Owner or transferee therefor, a new Bond (or Bonds at the option of the new Registered Owner) of the same date, maturity and interest rate and for the same aggregate principal amount in any authorized denomination, naming as Registered Owner the person or persons listed as the assignee on the assignment form appearing on the surrendered Bond, in exchange for such surrendered and cancelled Bond. Any Bond may be surrendered to the Bond Registrar and exchanged, without charge, for an equal aggregate principal amount of Bonds of the same date, maturity and interest rate, in any authorized denomination. The Bond Registrar shall not be obligated to register the transfer or to exchange any Bond during the 15 days preceding any interest payment or principal payment date any such Bond is to be redeemed.

(f) *Bond Registrar's Ownership of Bonds.* The Bond Registrar may become the Registered Owner of any Bond with the same rights it would have if it were not the Bond Registrar, and to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as member of, or in any other capacity with respect to, any committee formed to protect the right of the Registered Owners of Bonds.

(g) *Registration Covenant.* The City covenants that, until all Bonds have been surrendered and canceled, it will maintain a system for recording the ownership of each Bond that complies with the provisions of Section 149 of the Code.

(h) *Place and Medium of Payment.* Both principal of and interest on the Bonds shall be payable in lawful money of the United States of America. Interest on the Bonds shall be calculated on the basis of a year of 360 days and twelve 30-day months. For so long as all Bonds are in fully immobilized form, payments of principal and interest thereon shall be

made as provided in accordance with the operational arrangements of DTC referred to in the Letter of Representations. In the event that the Bonds are no longer in fully immobilized form, interest on the Bonds shall be paid by check or draft mailed to the Registered Owners at the addresses for such Registered Owners appearing on the Bond Register on the fifteenth day of the month preceding the interest payment date, or upon the written request of a Registered Owner of more than \$1,000,000 of Bonds (received by the Bond Registrar at least 15 days prior to the applicable payment date), such payment shall be made by the Bond Registrar by wire transfer to the account within the United States designated by the Registered Owner. Principal of the Bonds shall be payable upon presentation and surrender of such Bonds by the Registered Owners at the principal office of the Bond Registrar.

Section 5. *Redemption Prior to Maturity and Purchase of Bonds.*

(a) *Redemption.* The Bonds may be subject to redemption prior to scheduled maturity approved in the Bond Purchase Contract executed by the City Manager pursuant to Section 13 of this ordinance.

(b) *Purchase of Bonds.* The City further reserves the right to use at any time any surplus Revenues available after providing for the payments required by paragraphs First through Sixth, inclusive, of Section 6(a) of this ordinance, or other available funds, to purchase any of the Bonds that are offered to the City at any price deemed appropriate by the City. Any purchase of Bonds may be made with or without tender of Bonds and at either public or private sale.

(c) *Selection of Bonds for Redemption.* For as long as the Bonds are held in book-entry only form, the selection of particular Bonds within a maturity to be redeemed shall be made in accordance with the operational arrangements then in effect at DTC. If the Bonds are no

longer held in uncertificated form, the selection of such Bonds to be redeemed and the surrender and reissuance thereof, as applicable, shall be made as provided in the following provisions of this subsection (c). If the City redeems at any one time fewer than all of the Bonds having the same maturity date, the particular Bonds or portions of Bonds of such maturity to be redeemed shall be selected by lot (or in such manner determined by the Bond Registrar) in increments of \$5,000. In the case of a Bond of a denomination greater than \$5,000, the City and the Bond Registrar shall treat each Bond as representing such number of separate Bonds each of the denomination of \$5,000 as is obtained by dividing the actual principal amount of such Bond by \$5,000. In the event that only a portion of the principal sum of a Bond is redeemed, upon surrender of such Bond at the principal office of the Bond Registrar there shall be issued to the Registered Owner, without charge therefor, for the then unredeemed balance of the principal sum thereof, at the option of the Registered Owner, a Bond or Bonds of like maturity and interest rate in any of the denominations herein authorized.

(d) *Notice of Redemption.*

(i) Official Notice. For so long as the Bonds are held in uncertificated form, notice of redemption shall be given in accordance with the operational arrangements of DTC as then in effect, and neither the City nor the Bond Registrar will provide any notice of redemption to any Beneficial Owners. Thereafter (if the Bonds are no longer held in uncertificated form), notice of redemption shall be given in the manner hereinafter provided. Unless waived by any owner of Bonds to be redeemed, official notice of any such redemption (which redemption shall be conditioned by the Bond Registrar on the receipt of sufficient funds for redemption) shall be given by the Bond Registrar on behalf of the City by mailing a copy of an official redemption notice by first class mail at least 30 days and not more than 60 days prior

to the date fixed for redemption to the Registered Owner of the Bond or Bonds to be redeemed at the address shown on the Bond Register or at such other address as is furnished in writing by such Registered Owner to the Bond Registrar. Mailed notices will also be sent within the same period to Moody's Investors Service, Standard & Poor's Ratings Group and to the Underwriter or their business successors, if any.

All official notices of redemption shall be dated and shall state:

- (A) the redemption date,
- (B) the redemption price,
- (C) if fewer than all outstanding Bonds are to be redeemed, the identification by maturity (and, in the case of partial redemption, the respective principal amounts) of the Bonds to be redeemed,
- (D) that on the redemption date the redemption price will become due and payable upon each such Bond or portion thereof called for redemption, and that interest thereon shall cease to accrue from and after said date, and
- (E) the place where such Bonds are to be surrendered for payment of the redemption price, which place of payment shall be the principal office of the Bond Registrar.

On or prior to any redemption date, the City shall deposit with the Bond Registrar an amount of money sufficient to pay the redemption price of all the Bonds or portions of Bonds which are to be redeemed on that date.

(ii) Effect of Notice; Bonds Due. Official notice of redemption having been given as aforesaid, the Bonds or portions of Bonds so to be redeemed shall, on the redemption date, become due and payable at the redemption price therein specified, and from and after such date (unless the City shall default in the payment of the redemption price) such

Bonds or portions of Bonds shall cease to bear interest. Upon surrender of such Bonds for redemption in accordance with said notice, such Bonds shall be paid by the Bond Registrar at the redemption price. Installments of interest due on or prior to the redemption date shall be payable as herein provided for payment of interest. All Bonds which have been redeemed shall be canceled and destroyed by the Bond Registrar and shall not be reissued.

(iii) Additional Notice. In addition to the foregoing notice, further notice shall be given by the City as set out below, but no defect in said further notice nor any failure to give all or any portion of such further notice shall in any manner defeat the effectiveness of a call for redemption if notice thereof is given as above prescribed. Each further notice of redemption given hereunder shall contain the information required above for an official notice of redemption plus (A) the CUSIP numbers of all Bonds being redeemed; (B) the date of issue of the Bonds as originally issued; (C) the rate of interest borne by each Bond being redeemed; (D) the maturity date of each Bond being redeemed; and (E) any other descriptive information needed to identify accurately the Bonds being redeemed. Each further notice of redemption shall be sent at least 35 days before the redemption date to the MSRB, the Insurer, if any, to each NRMSIR, the SID, if any, and to such persons (including securities repositories who customarily at the time receive notices of redemption in accordance with rules promulgated by the SEC) and with such additional information as the City shall deem appropriate, but such mailings shall not be a condition precedent to the redemption of such Bonds.

(iv) Amendment of Notice Provisions. The foregoing notice provisions of this Section 5, including but not limited to the information to be included in redemption notices and the persons designated to receive notices, may be amended by additions,

deletions and changes in order to maintain compliance with duly promulgated regulations and recommendations regarding notices of redemption of municipal securities.

Section 6. Priority of Payments from Revenue Fund. A special fund of the City known as the "Water and Sewer Revenue Fund" has heretofore been established by Section 4 of Ordinance No. M-93 of the City, into which shall be deposited all Revenues as collected. Moneys in the Revenue Fund shall be trust funds and shall be held separate and apart from all other funds and accounts of the City. Money in the Revenue Fund may be invested in any Permitted Investment.

There have heretofore been created in the Revenue Fund two accounts known as (i) the General Account and (ii) the Coverage Stabilization Account, which accounts shall be held and used for the purposes hereinafter described.

The Revenues shall be deposited and credited to the following accounts in the Revenue Fund and used only for the following purposes and in the following order of priority:

(a) *General Account.* All Revenues paid into the Revenue Fund shall first be credited to the General Account therein and applied as follows:

FIRST, to pay the Operating Expenses and to maintain a balance in the Revenue Fund sufficient to enable the City continuously to meet Operating Expenses on a current basis;

SECOND, to make all payments required to be made into the Interest Account to pay the interest on any Parity Bonds;

THIRD, to make all payments required to be made into the Principal Account to pay the maturing principal of any Parity Bonds and to make all payments required to

be made into the Bond Retirement Account to provide for the mandatory redemption of Term Bonds;

FOURTH, to make all payments required to be made into the Reserve Account to secure the payment of the principal of and interest on outstanding Parity Bonds;

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

SIXTH, to make all payments required to be made into any revenue bond redemption fund, revenue warrant redemption fund, debt service account, reserve account or bond retirement account created to pay and secure the payment of the principal of and interest on any revenue bonds, or revenue warrants or other revenue obligations of the City having a lien upon the Revenues junior and inferior to the lien thereon for the payment of the principal of and interest on the Parity Bonds;

SEVENTH, to retire by redemption or purchase any outstanding water and sewer revenue bonds or other obligation of the City, to make necessary additions, betterments, improvements and repairs to or extensions and replacements of the System, or for any other lawful City purposes.

(b) *Coverage Stabilization Account.*

(i) The City maintains a Coverage Stabilization Account, established pursuant to Section 4.1 of Ordinance No. M-3315: The procedures of this subsection (b)(i) are intended to apply from and after the date that all Outstanding Parity Bonds issued prior to 2002 are no longer outstanding. The City hereby determines that the maintenance of a Coverage Stabilization Account will even out fluctuations in Net Revenues and help to alleviate the need

for short-term rate adjustments. Money in the Coverage Stabilization Account will be transferred as determined from time to time by the City. The City may make payments into the Coverage Stabilization Account from the General Account at any time. Money in the Coverage Stabilization Account may be withdrawn at any time and used for the purpose for which the Revenues may be used. Amounts withdrawn from the Coverage Stabilization Account shall increase Revenues for the period in which they are withdrawn, and amounts deposited in the Coverage Stabilization Account shall reduce Revenues for the period during which they are deposited. Credits to or from the Coverage Stabilization Account that occur within 90 days after the end of a Fiscal Year may be treated as occurring within such Fiscal Year. Earnings on the Coverage Stabilization Account shall be credited to the General Account.

(ii) The provisions of this subsection (ii) are intended to be applicable to the Coverage Stabilization Account until the date that all Outstanding Parity Bonds issued prior to 2002 are no longer outstanding. To the extent that surplus Revenues remain after the payments so required to be made out of the General Account, the City may credit up to the full amount of such surplus to the Coverage Stabilization Account.

The Coverage Stabilization Account has been created in anticipation of future increases in revenue requirements. Funds in the Coverage Stabilization Account may be transferred to the General Account to accommodate part or all of those future revenue requirement increases.

Moneys in the Coverage Stabilization Account may be used for any lawful purpose. Moneys in the Coverage Stabilization Account shall be used from time to time to make up any deficiencies in the Bond Fund, and such moneys in the Coverage Stabilization Account are hereby pledged as additional payments to the Bond Fund to the extent required for any such deficiencies.

Section 7. Bond Fund.

(a) *Bond Fund and Accounts Therein.* A special fund of the City was created by Ordinance No. M-2572 and designated the "Water and Sewer Revenue Bond Fund" (the "Bond Fund"). The Bond Fund shall be held in trust and administered by the City and shall be used solely for the purpose of paying the principal of and premium, if any, and interest on the Parity Bonds, and of retiring the Parity Bonds prior to maturity. There was created in the Bond Fund an Interest Account, a Principal Account, a Reserve Account and a Bond Retirement Account.

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

(b) *Transfer to Paying Agents.* Moneys in the Bond Fund shall be transmitted to the Bond Registrar in amounts sufficient to meet the maturing installments (or mandatory redemption) of principal of and premium, if any, and interest on the Bonds when due.

(c) *Beneficiaries of Bond Fund and of Funds Held by Bond Registrar.* Moneys set aside from time to time with the Bond Registrar for payment of the principal of and premium, if any, and interest on the Bonds shall be held in trust for the owners of the Bonds. Until so set aside, all moneys in the Bond Fund shall be held in trust for the benefit of the owners of all Parity Bonds at the time outstanding equally and ratably and without preference or distinction as between Parity Bonds of different series or maturities.

(d) *When No Further Payments Into Bond Fund Required; Disposition of Surplus Funds.* Whenever the assets of the Bond Fund shall be sufficient to provide moneys to retire all Parity Bonds then outstanding, including such interest thereon as thereafter may become due and payable and any premiums upon redemption thereof, no further payments need be made into the Bond Fund. 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 Parity Bonds shall be transferred to the Revenue Fund.

(e) *Fixed Amounts to be Paid into Bond Fund.* The City hereby irrevocably obligates and binds itself to set aside and to pay (to the extent not otherwise provided) from moneys in the Revenue Fund into the Bond Fund, after paying or making provision for the payment of Operating Expenses and reserving sufficient moneys which, together with reasonably expected Revenues, will provide for the payment of Operating Expenses for a reasonable period, and prior to the payment of any other charge or obligation against such Revenues, amounts sufficient to pay the principal of and 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 requirements for the mandatory retirement of Term Bonds prior to their maturity.

The fixed amounts to be paid into the Bond Fund shall be as follows:

(1) Interest Account. The City shall transfer from the Revenue Fund to the Interest Account on or prior to each date upon which an installment of interest falls due on the Bonds, the aggregate amount of interest then falling due on all outstanding Bonds.

(2) Principal Account. The City shall transfer from the Revenue Fund to the Principal Account on or prior to each Serial Bond maturity date, an amount equal to the principal amount of Serial Bonds then falling due.

(3) Bond Retirement Account. The City shall transfer from the Revenue Fund to the Bond Retirement Account on or prior to each Sinking Fund Requirement Date an amount 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 (or payment at maturity) 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. 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, in which event the principal amount of such Bonds so purchased shall be credited against the Sinking Fund Requirement designated by the Treasurer. 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. If as of any June 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 June 1, then such excess may be credited against the Sinking Fund Requirement(s) for the Term Bonds designated by the Treasurer.

The City covenants and agrees that in the event it issues any Future Parity Bonds that are Term Bonds, it will provide in each ordinance authorizing the issuance of the same for payments to be made from the Revenue Fund into the Bond Retirement Account sufficient to amortize the

principal of such Future Parity Bonds that are Term Bonds on or before the maturity date thereof as provided above.

(4) Payments into Reserve Account. The City covenants and agrees that, on or prior to the date of issuance of the Bonds, the amount on deposit in the Reserve Account will be at least equal to the Reserve Account Requirement for the Parity Bonds.

Except as hereafter provided in this subsection, the City hereby further covenants and agrees that in the event it issues any Future Parity Bonds it will provide in the ordinance authorizing the issuance of the same for the payment into the Reserve Account out of the proceeds of such Future Parity Bonds, Revenues (or, at the option of the City, out of any other funds on hand and legally available therefor) an amount that, together with the money already on deposit therein, will be at least equal to the Reserve Account Requirement for all outstanding Parity Bonds and such Future Parity Bonds.

The City further covenants and agrees that after any required deposit has been made into the Reserve Account, it will at all times maintain therein an amount at least equal to the Reserve Account Requirement, as redetermined in each calendar year with respect to the Parity Bonds secured by such Reserve Account. Whenever there is a sufficient amount in the Bond Fund, including all accounts therein, to pay the principal of, premium, if any, and interest on all outstanding Parity Bonds, the moneys in the Reserve Account may be used to pay the principal of, premium, if any, and interest on the Parity Bonds secured thereby. Moneys in the Reserve Account may also be withdrawn to redeem and retire, and to pay the premium, if any, and interest due to such date of redemption, on the outstanding Parity Bonds secured by such Reserve Account, as long as the moneys remaining on deposit in such Reserve Account are at least equal

to the Reserve Account Requirement determined with respect to the Parity Bonds then outstanding.

In the event there shall be a deficiency in the Interest Account or the Principal Account, or a deficiency in the Bond Retirement Account to meet the required schedule of payments for amortization of Term Bonds of any issue of Parity Bonds, such deficiency shall be made up from the Reserve Account by the withdrawal of moneys therefrom. If a deficiency still exists immediately prior to an interest payment date and after the withdrawal of cash, the City shall then draw from any Qualified Letter of Credit or Qualified Insurance. Such draw shall be made at such times and under such conditions as the agreement for such Qualified Letter of Credit or such Qualified Insurance shall provide. Any deficiency created in such Reserve Account by reason of any such withdrawal shall then be made up out of Revenues after making necessary provision for the payments required to be made by subparagraphs First through Third, inclusive, of Section 6 of this ordinance.

In making the payments and credits to the Reserve Account required by this Section, 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 this Section to the extent that such payments and credits 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 three paragraphs of this

subsection as if the Parity Bonds that remain outstanding had been issued on the date of such notice of cancellation.

(5) Priority of Lien of Payments into Bond Fund. The amounts so pledged to be paid into the Interest Account, the Principal Account, the Bond Retirement Account and the Reserve Account from the Revenue Fund are hereby declared to be a lien and charge upon the Revenues prior and superior to all other charges of any kind or nature whatsoever, except for the payment of Operating Expenses and except that the amounts so pledged shall be of equal lien to the liens and charges upon such Revenues heretofore made for the payment and security of the payment of the principal of and interest on the Outstanding Parity Bonds and which may hereafter be made to pay and secure the payment of any Future Parity Bonds.

(6) Application and Investment of Moneys in Bond Fund. Money in any account in the Bond Fund shall be invested in any Permitted Investment. Investments in the Interest Account, Principal Account and the Bond Retirement Account shall mature prior to the date on which such money shall be needed for required interest or principal payments. Investments in the Reserve Account shall mature not later than the last maturity of the Bonds secured thereby and not later than five years from the date of investment. All interest earned and income derived by virtue of such investments shall remain in the Bond Fund and be used to meet the required deposits into any account therein.

(7) Sufficiency of Revenues. The Council hereby finds that in fixing the amounts to be paid into the Bond Fund out of the Revenues, it has exercised due regard for the Operating Expenses and has not obligated the City to set aside and pay into such Fund a

greater amount of such Revenues than in its judgment will be available over and above the Operating Expenses.

Section 8. Bond Covenants.

(a) *Rate Covenant.* The City shall establish, maintain and collect rates and charges for the use of the services and facilities of and all commodities sold, furnished or supplied by the System, and shall adjust such rates and charges from time to time so that:

(1) The Revenues collected will at all times be sufficient (A) to pay the Operating Expenses, (B) to pay the principal of and interest on the Parity Bonds, as and when the same shall become due and payable, (C) to make adequate provision for the payment of any Term Bonds, (D) to make when due all payments that the City is obligated to make into any Reserve Account and all other payments that the City is obligated to make pursuant to this ordinance, including payments to any Insurer or the issuer of a Qualified Letter of Credit, and (E) to pay all taxes, assessments or other governmental charges lawfully imposed on the System or the revenue therefrom or payments in lieu thereof and any and all other amounts that the City may now or hereafter become obligated to pay from the Revenues by law or contract; and

(2) The Net Revenues in each Fiscal Year will be at least equal to 1.30 times the Average Annual Debt Service calculated as of December 31 of the preceding calendar year; and

(3) The provisions of this subsection (3) are intended to apply for as long as any of the Outstanding Parity Bonds issued prior to 2002 remain outstanding. For purposes of calculating funds available for meeting the financial requirements of the System, but not for purposes of meeting the requirements of subsections (1) and (2) above, or the requirements of Section 10 for the issuance of Future Parity Bonds, (i) there must be added to

Net Revenues for any Fiscal Year such amount withdrawn from the Coverage Stabilization Account and deposited in the General Account, and (ii) there must be subtracted from Net Revenues for any Fiscal Year such amounts as are withdrawn from the General Account and deposited into the Coverage Stabilization Account for such Fiscal Year; and

(4) From and after the time when all of the Outstanding Parity Bonds issued prior to 2002 no longer remain outstanding, transfers from the Coverage Stabilization Account to the General Account as provided in Section 6(b)(i) of this ordinance shall be included in "Revenues" for purposes of compliance with the requirements of subsections (1) and (2) above, but not for the purpose of meeting the Future Parity Bond Coverage Test.

(b) *Maintenance and Operation.* The City shall at all times maintain, preserve and keep the properties of the System in good repair, working order and condition and will from time to time make all necessary and proper repairs, renewals, replacements, extensions and betterments thereto, so that at all times the business carried on in connection therewith will be properly and advantageously conducted, and the City will at all times operate or cause to be operated said properties of the System and the business in connection therewith in an efficient manner and at a reasonable cost.

(c) *Payment of Operating Expenses.* In making or providing for the monthly payments from the Revenue Fund as required by Section 6 hereof, the City shall maintain in the Revenue Fund sufficient moneys to enable the City to meet the Operating Expenses on a current basis.

(d) *Sale or Disposition of the System.* 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 into the Bond Fund of cash or Government Obligations

sufficient together with interest to be earned thereon to pay the principal of and interest on the then outstanding Bonds, nor will it sell or otherwise dispose of any part of the useful operating properties of the System unless such facilities are replaced or provision is made for payment into the Bond Fund of the greater of:

(1) An amount that will be in the same proportion to the net amount of Bonds then outstanding (defined as the total amount of the outstanding Parity Bonds less the amount of cash and investments in the Bond Fund and accounts therein) that the Net Revenues from the portion of the System sold or disposed of for the preceding year bears to the total Net Revenues for such period; or

(2) An amount that will be in the same proportion to the net principal amount of Parity 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.

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

Notwithstanding any other provision of this subsection, the City may sell or otherwise dispose of any of the works, plant, properties and facilities of the System or any real or personal property comprising a part of the same that shall have become unserviceable, inadequate, obsolete or unfit to be used in the operation of the System, or no longer necessary, material to or useful in such operation, without making any deposit into the Bond Fund.

(e) *Liens or Encumbrances.* The City will not at any time create or permit to accrue or to exist any lien or other encumbrance or indebtedness upon the System or the Revenues or any part thereof, prior or superior to the lien thereon for the payment of the Bonds,

and will pay and discharge, or cause to be paid and discharged, any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien or charge upon the Revenues, or any part thereof, or upon any funds in the hands of the City, prior to or superior to the lien of the Bonds, or which might impair the security of the Bonds.

(f) *Insurance.* The City shall, 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 as determined by the City Manager. A program of self insurance against certain risks or as to part of the potential liability for certain risks may be included as part of the City's insurance coverage plan.

In the event of any loss or damage to the properties of the System covered by insurance, the City will (i) with respect to each such loss, promptly repair and reconstruct, to the extent necessary to the proper conduct of the operations of the System, the lost or damaged portion thereof and shall apply the proceeds of any insurance policy or policies covering such loss or damage for that purpose to the extent required therefor, except in the case of loss or damage involving an amount equal to or greater than 2% of the value of the net utility plant of the System or more, when such repair and reconstruction is not recommended by the City Manager, and (ii) if the City shall not use the entire proceeds of such insurance to repair or reconstruct such lost or damaged property, such insurance proceeds thereof not so used shall be paid into the Revenue Fund, and if in excess of an amount equal to 2% of the value of the net utility plant of

the System for any one loss or damage, shall be used to purchase or redeem Parity Bonds or to acquire or construct extensions, betterments and improvements to the System.

(g) *Books and Accounts.* The City shall keep proper books of account in accordance with any applicable rules and regulations prescribed by the State of Washington. The City shall prepare, and any owner of Bonds may, upon written request, obtain copies of, balance sheets and profit and loss statements showing in reasonable detail the financial condition of the System as of the close of each year, and the income and expenses of such year, including the amounts paid into the Revenue Fund, the Bond Fund, and into any and all special funds or accounts created pursuant to the provisions of this ordinance, and the amounts expended for maintenance, renewals, replacements, and capital additions to the System.

(h) *Additions and Improvements.* The City will not expend any of the revenues derived by it from the operation of the System or the proceeds of any indebtedness payable from the Revenues for any extensions, betterments or improvements to the System which are not consistent with prudent utility management and which will not properly and advantageously contribute to the conduct of the business of the System in an efficient manner, *provided, that* to the extent permitted by law, the City may provide commodities, services or facilities free of charge or at a reduced charge in order to carry out a plan adopted by the Council for conservation of water or to benefit elderly, handicapped or poor persons.

Section 9. Tax Covenants. The City covenants that it will not take or permit to be taken on its behalf any action that would adversely affect the exemption from federal income taxation of the interest on the Bonds and will take or require to be taken such acts as may reasonably be within its ability and as may from time to time be required under applicable law to continue the exemption from federal income taxation of the interest on the Bonds.

(a) *Arbitrage Covenant.* Without limiting the generality of the foregoing, the City covenants that it will not take any action or fail to take any action with respect to the proceeds of sale of the Bonds or any other funds of the City which may be deemed to be proceeds of the Bonds pursuant to Section 148 of the Code and the regulations promulgated thereunder which, if such use had been reasonably expected on the dates of delivery of the Bonds to the initial purchasers thereof, would have caused the Bonds to be treated as "arbitrage bonds" within the meaning of such term as used in Section 148 of the Code.

The City represents that it has not been notified of any listing or proposed listing by the Internal Revenue Service to the effect that it is an issuer whose arbitrage certifications may not be relied upon. The City will comply with the requirements of Section 148 of the Code and the applicable regulations thereunder throughout the term of the Bonds.

(b) *Private Person Use Limitation for Bonds.* The City covenants that for as long as the Bonds are outstanding, it will not permit:

(1) More than 10% of the Net Proceeds of the Bonds to be allocated to any Private Person Use; and

(2) More than 10% of the principal or interest payments on the Bonds in a Bond Year to be directly or indirectly: (A) secured by any interest in property used or to be used for any Private Person Use or secured by payments in respect of property used or to be used for any Private Person Use, or (B) derived from payments (whether or not made to the City) in respect of property, or borrowed money, used or to be used for any Private Person Use.

The City further covenants that, if:

(3) More than five percent of the Net Proceeds of the Bonds are allocable to any Private Person Use; and

(4) More than five percent of the principal or interest payments on the Bonds in a Bond Year are (under the terms of this ordinance or any underlying arrangement) directly or indirectly:

(A) secured by any interest in property used or to be used for any Private Person Use or secured by payments in respect of property used or to be used for any Private Person Use, or

(B) derived from payments (whether or not made to the City) in respect of property, or borrowed money, used or to be used for any Private Person Use, then, (i) any Private Person Use of the project described in subsection (3) hereof or Private Person Use payments described in subsection (4) hereof that is in excess of the five percent limitations described in such subsections (3) or (4) will be for a Private Person Use that is related to the state or local governmental use of the projects funded by the proceeds of the Refunded Bonds (including the Refunded Bonds), and (ii) any Private Person Use will not exceed the amount of Net Proceeds of the Bonds allocable to the state or local governmental use portion of the project(s) to which the Private Person Use of such portion of the projects funded by the proceeds of the Bonds (including the Refunded Bonds) relate. The City further covenants that it will comply with any limitations on the use of the project(s) funded by the proceeds of the Refunded Bonds by other than state and local governmental users that are necessary, in the opinion of its bond counsel, to preserve the tax exemption of the interest on the Bonds. The covenants of this section are specified solely to assure the continued exemption from regular income taxation of the interest on the Bonds.

(c) *No Designation under Section 265(b).* The Bonds are not “qualified tax exempt obligations” for investment by financial institutions under Section 265(b) of the Code.

(d) *Modification of Tax Covenants.* The covenants of this Section are specified solely to assure the continued exemption from regular income taxation of the interest on the Bonds. To that end, the provisions of this Section may be modified or eliminated without any requirement for formal amendment thereof, and without the consent of the Insurer, if any, or any Registered Owner or Beneficial Owner, upon receipt of an opinion of the City's bond counsel that such modification or elimination will not adversely affect the tax exemption of interest on any Bonds.

Section 10. Future Parity Bonds. Future Parity Bonds may be issued payable from the Bond Fund on a parity with the Bonds and any other outstanding Parity Bonds theretofore issued and secured by an equal charge and lien on the Revenues pledged to said Bond Fund:

First, for the purpose of acquiring, constructing and installing additions and improvements to and extensions of, acquiring necessary equipment for or making necessary repairs, replacements or other capital improvements to the System, or

Second, for the purpose of refunding, or purchasing and retiring prior to their maturity, any outstanding Parity Bonds or other revenue obligations of the System.

(a) The City may issue Future Parity Bonds upon compliance with the following conditions:

(1) At the time of the issuance of such Future Parity Bonds, there shall be no deficiency in the Bond Fund.

(2) In each ordinance authorizing such Future Parity Bonds, provision shall be made for payments into the Reserve Account in accordance with Section 7 of this ordinance.

(3) At the time of the issuance of such Future Parity Bonds, the City shall have on file a certificate from a Professional Utility Consultant, not then employed by the City except for the purpose of giving such certificate, showing that the Net Revenue received during the most recent twelve-month period for which financial statements are available within the twenty-four months preceding the date of delivery of such Future Parity Bonds equaled at least 1.3 times the Average Annual Debt Service each calendar year or Fiscal Year thereafter on the then outstanding Parity Bonds, and that the Adjusted Net Revenues to be received each calendar year or Fiscal Year thereafter, will equal at least 1.3 times the Average Annual Debt Service each such calendar year or Fiscal Year, on the Parity Bonds that shall be outstanding in each such calendar year or Fiscal Year (including the Future Parity Bonds proposed to be issued) ("Future Parity Bond Coverage Test").

The "Adjusted Net Revenues" shall be the Net Revenues for a period of any twelve consecutive months out of the twenty-four months immediately preceding the date of delivery of such proposed Future Parity Bonds, as adjusted to take into consideration changes in Net Revenues estimated to occur under one or more of the following conditions for each year after such delivery for so long as any Parity Bonds, including the Future Parity Bonds proposed to be issued, shall be outstanding:

(A) Any increase or decrease in Net Revenues that would result if any change in rates and charges adopted by the Council prior to the date of such certificate and subsequent to the beginning of such twelve-month period had been in force during the full twelve-month period;

(B) The additional Net Revenues from any rate increases which have been approved by ordinance of the Council but which are not then in effect;

(C) Any increase or decrease in Net Revenues estimated by such Professional Utility Consultant to result from any additions, betterments and improvements to and extensions of any facilities of the System which (i) became fully operational during such twelve-month period, (ii) were under construction at the time of such certificate, or (iii) will be constructed from the proceeds of the Future Parity Bonds proposed to be issued;

(D) The additional Net Revenues which would have been received if any customers added to the System during such twelve-month period were customers for the entire period; and

(E) The additional Net Revenues that may be derived by the City from any users of the System with whom the City has entered into a contract for utility services to be furnished, which revenues have not otherwise been included in Net Revenues.

Such Professional Utility Consultant shall base his certification upon, and his certificate shall have attached thereto, financial statements of the System audited by the State Examiner (unless such an audit is not available for a twelve-month period within the preceding twenty-four months) and certified by the Treasurer, showing income and expenses for the period upon which the same is based.

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

(4) The additional provisions of this subsection (a)(4) shall be effective from and after the date on which all Outstanding Parity Bonds issued prior to 2002 are no longer outstanding. In the event that the Net Revenues of the City for the twelve-month period within the preceding twenty-four months based upon the financial statements of the City (as described in the previous subsection (3)) are sufficient, without any adjustment, to

demonstrate compliance with the Future Parity Bond Coverage Test, then the certificate described in subsection (a)(3) of this Section may be delivered by the City Manager in lieu of a certificate from a Professional Utility Consultant. In such case, the certificate of the City Manager shall be conclusive and the only evidence required to show compliance with the provisions and requirements of subsection (a)(3).

(5) Notwithstanding the foregoing, if Future Parity Bonds are to be issued for the purpose of refunding at or prior to their maturity any part or all of the then outstanding Parity Bonds and the issuance of such refunding Future Parity Bonds results in a debt service savings and does not require an increase of more than \$5,000 in any year for principal and interest on such refunding Future Parity Bonds, the certificate required by subsection (a)(3) of this Section need not be obtained.

(b) Nothing herein contained shall prevent the City from issuing revenue bonds or other obligations which are a charge upon the Revenues junior or inferior to the payments required by this ordinance to be made out of such Revenues into the Bond Fund and accounts therein to pay and secure the payment of any outstanding Bonds.

(c) Nothing herein contained shall prevent the City from issuing revenue bonds to refund maturing Bonds for the payment of which moneys are not otherwise available.

Section 11. Form of Bonds. The Bonds shall be in substantially the following form:

UNITED STATES OF AMERICA

STATEMENT OF INSURANCE

Financial Guaranty Insurance Company ("Financial Guaranty") has issued a policy containing the following provisions with respect to the CITY OF VANCOUVER, WASHINGTON, WATER AND SEWER REVENUE REFUNDING BONDS, 2004 (the "Bonds"), such policy being on file at the principal office of the Registrar, as paying agent (the "Paying Agent"):

Financial Guaranty hereby unconditionally and irrevocably agrees to pay for disbursement to the Bondholders that portion of the principal of and interest on the Bonds which is then due for payment and which the issuer of the Bonds (the "Issuer") shall have failed to provide. Due for payment means, with respect to the principal, the stated maturity date thereof, or the date on which the same shall have been duly called for mandatory sinking fund redemption, and does not refer to any earlier date on which the payment of principal of the Bonds is due by reason of call for redemption (other than mandatory sinking fund redemption), acceleration or other advancement of maturity, and with respect to interest, the stated date for payment of such interest.

Upon receipt of telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or the Paying Agent to Financial Guaranty that the required payment of principal or interest has not been made by the Issuer to the Paying Agent, Financial Guaranty on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, or its successor as its agent (the "Fiscal Agent"), sufficient to make the portion of such payment not paid by the Issuer. Upon presentation to the Fiscal Agent of evidence satisfactory to it of the Bondholder's right to receive such payment and any appropriate instruments of assignment required to vest all of such Bondholder's right to such payment in Financial Guaranty, the Fiscal Agent will disburse such amount to the Bondholder.

As used herein the term "Bondholder" means the person other than the Issuer who at the time of nonpayment of a Bond is entitled under the terms of such Bond to payment thereof.

The policy is non-cancelable for any reason.

FINANCIAL GUARANTY INSURANCE COMPANY

NO. _____

\$ _____

STATE OF WASHINGTON
CITY OF VANCOUVER
WATER AND SEWER REVENUE REFUNDING BOND, 2004

Interest Rate:

Maturity Date:

CUSIP No.

Registered Owner: CEDE & Co.

Principal Amount: _____ AND NO/DOLLARS

THE CITY OF VANCOUVER, a municipal corporation organized and existing under and by virtue of the laws of the State of Washington (the "City"), promises to pay to the Registered Owner identified above, or registered assigns, on the Maturity Date identified above, solely from the Bond Fund, the Principal Amount indicated above and to pay interest thereon from the Bond Fund from _____, 2004, or the most recent date to which interest has been paid or duly provided for or until payment of this bond at the Interest Rate set forth above, payable on June 1, 2004, and semiannually thereafter on the first days of each June and December. Both principal of and interest on this bond are payable in lawful money of the United States of America. Interest shall be paid as provided in the Blanket Issuer Letter of Representations (the "Letter of Representations") by the City to The Depository Trust Company ("DTC"). Principal shall be paid as provided in the Letter of Representations to the Registered Owner or assigns upon presentation and surrender of this bond at the principal office of the fiscal agency of the State of Washington (the "Registrar"). Capitalized terms used in this bond which are not specifically defined have the meanings given such terms in Ordinance No. M-_____ of the City (the "Bond Ordinance").

This bond is one of an issue of [\$29,000,000] of bonds of the City of like date, tenor and effect, except as to number, amount, rate of interest and date of maturity and is issued pursuant to the Bond Ordinance to refund certain outstanding water and sewer revenue bonds of the City.

The bonds of this issue are [not] subject to redemption prior to their scheduled maturities.

The bonds of this issue are not general obligations of the City. The City hereby covenants and agrees with the owner and holder of this bond that it will keep and perform all the covenants of this bond and the Bond Ordinance.

The bonds of this issue are not "private activity bonds" as such term is defined in the Internal Revenue Code of 1986, as amended (the "Code"). The bonds of this issue are not "qualified tax-exempt obligations" under Section 265(b) of the Code.

The City does hereby pledge and bind itself to set aside from the Revenue Fund out of the Revenues of the System and to pay into the Bond Fund and the accounts created therein the various amounts required by the Bond Ordinance to be paid into and maintained in such Fund and accounts, all within the times provided by the Bond Ordinance.

To the extent more particularly provided by the Bond Ordinance, the amounts so pledged to be paid into the Interest Account, the Principal Account, the Bond Retirement Account and the Reserve Account from the Revenue Fund shall be a lien and charge upon the Revenues prior and superior to all other charges of any kind or nature whatsoever, except for the payment of Operating Expenses and except that the amounts so pledged shall be of equal lien to the liens and charges upon such Revenues heretofore made for the payment and security of the payment of the principal of and interest on the Outstanding Parity Bonds and which may hereafter be made to pay and secure the payment of any Future Parity Bonds.

The City has further bound itself to maintain the System in good repair, working order and condition, to operate the same in an efficient manner and at a reasonable cost, and to establish, maintain and collect rates and charges for as long as any of the bonds of this issue are outstanding that will make available, for the payment of the principal thereof and interest thereon as the same shall become due, Net Revenues in an amount that will be at least equal to 1.30 times the Average Annual Debt Service.

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

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

It is hereby certified and declared that this bond and the bonds of this issue are issued pursuant to and in strict compliance with the Constitution and laws of the State of Washington and ordinances of the City and that all acts, conditions and things required to be done precedent to and in the issuance of this bond have happened, been done and performed.

IN WITNESS WHEREOF, the City of Vancouver, Washington has caused this bond to be signed with the facsimile or manual signature of the Mayor, to be attested by the facsimile or manual signature of the City Clerk, and the corporate seal of the City to be reproduced hereon, all as of this ____ day of _____, 2004.

CITY OF VANCOUVER, WASHINGTON

By _____ /s/ facsimile or manual
Mayor

(SEAL)

ATTEST:

_____/s/ facsimile or manual
City Clerk

CERTIFICATE OF AUTHENTICATION

Date of Authentication: _____, 2004

This bond is one of the bonds described in the within-mentioned Bond Ordinance and is one of the Water and Sewer Revenue Refunding Bonds, 2004 of the City of Vancouver, Washington, dated _____, 2004.

WASHINGTON STATE FISCAL
AGENCY, Bond Registrar

By _____
Authorized Signer

Section 12. Execution of Bonds. The Bonds shall be executed on behalf of the City with the manual or facsimile signature of the Mayor and attested by the manual or facsimile signature of the City Clerk, and the seal of the City shall be impressed or a facsimile thereof imprinted on the Bonds.

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

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

Section 13. Designation of Refunded Bonds; Sale of Bonds.

(a) *Designation of Refunded Bonds.* As outlined in the recitals to this ordinance, certain principal maturities of the 1999 Bonds may be called for redemption prior to their scheduled maturities. All or some of these bonds may be refunded and refinanced with the proceeds of the Bonds authorized by this ordinance ("Refunding Candidates"). The City Manager may select some or all of the Refunding Candidates and designate those Refunding Candidates as the "Refunded Bonds" in the Bond Purchase Contract if and to the extent that the aggregate savings to be realized as a result of the refunding of the Refunded Bonds (*i.e.*, the present value of (i) the aggregate debt service on the Refunded Bonds minus (ii) the aggregate debt service on the Bonds, after payment of all costs of issuance of the Bonds), exceed the Savings Target.

(b) *Bond Sale.* The Bonds shall be sold at negotiated sale to the Underwriter pursuant to the terms of the Bond Purchase Contract. The City Manager is hereby authorized to negotiate terms for the purchase of the Bonds and execute the Bond Purchase Contract, with such terms as are approved by him pursuant to this Section and consistent with this ordinance. The

Underwriter has advised the Council that market conditions are fluctuating and, as a result, the most favorable market conditions may occur on a day other than a regular meeting date of the Council. The Council has determined that it would be in the best interest of the City to delegate to the City Manager for a limited time the authority to designate the Refunded Bonds by selection from the Refunding Candidates as described in subsection (a) above, approve the final interest rates, aggregate principal amount, terms of redemption and redemption rights and principal amounts of each maturity of the Bonds. The City Manager is hereby authorized to approve the final interest rates, maturity dates, aggregate principal amount, principal maturities, terms of redemption and redemption rights for the Bonds in the manner provided hereafter so long as (i) the aggregate principal amount of the Bonds does not exceed \$29,000,000; (ii) the true interest cost for the Bonds (in the aggregate) does not exceed 4.25%; and (iii) the aggregate savings, as described in subsection (a), is at least equal to the Savings Target.

In designating the Refunded Bonds and determining the final interest rates, aggregate principal amounts, principal maturities, terms of redemption and redemption rights, the City Manager, in consultation with City staff, shall take into account those factors that, in his judgment, will result in the lowest true interest cost on the Bonds to their maturity, including, but not limited to current financial market conditions and current interest rates for obligations comparable in tenor and quality to the Bonds. Subject to the terms and conditions set forth in this Section 13, the City Manager is hereby authorized to execute the final form of the Bond Purchase Contract, upon the City Manager's approval of the final interest rates, aggregate principal amount, principal maturities, terms of redemption and redemption rights set forth therein. Following the execution of the Bond Purchase Contract, the City Manager shall provide a report to the Council, describing the final terms of the Bonds approved pursuant to the

authority delegated in this Section. The authority granted to the City Manager by this Section 13 shall expire 90 days after the date of approval of this ordinance. If a Bond Purchase Contract for the Bonds has not been executed within 90 days after the date of final approval of this ordinance, the authorization for the issuance of the Bonds shall be rescinded, and the Bonds shall not be issued nor their sale approved unless such Bonds shall have been re-authorized by ordinance of the Council. The ordinance re-authorizing the issuance and sale of such Bonds may be in the form of a new ordinance repealing this ordinance in whole or in part or may be in the form of an amendatory ordinance approving a bond purchase contract or establishing terms and conditions for the authority delegated under this Section 13.

(c) *Delivery of Bonds; Documentation.* Upon the passage and approval of this ordinance, the proper officials of the City including the City Manager, are authorized and directed to undertake all action necessary for the prompt execution and delivery of the Bonds to the Underwriter thereof, to purchase the Bond Insurance Policy, and further to execute the Bond Purchase Contract and all closing certificates and documents required to effect the closing and delivery of the Bonds in accordance with the terms of the Bond Purchase Contract.

(d) *Preliminary and Final Official Statements.* The Treasurer is authorized to ratify and to approve for purposes of the Rule, on behalf of the City, the Official Statement (and to deem final any Preliminary Official Statement) (both as defined in the Bond Purchase Contract) relating to the issuance and sale of the Bonds and the distribution of the Official Statement pursuant thereto with such changes, if any, as may be deemed by him/her to be appropriate.

Section 14. Bond Insurance.

(a) *Acceptance of Insurance.* In accordance with the offer of the Underwriter to purchase the Bonds, the Council hereby approves the commitment of Financial Guaranty Insurance Company, a New York stock insurance company, or any successor thereto, (the "Insurer") to provide a bond insurance policy guaranteeing the payment when due of principal of and interest on the Bonds (the "Bond Insurance Policy"). The Council further authorizes and directs all proper officers, agents, attorneys and employees of the City to cooperate with the Insurer in preparing such additional agreements, certificates, and other documentation on behalf of the City as shall be necessary or advisable in providing for the Bond Insurance Policy.

(b) *Payments Under the Bond Insurance Policy and Rights of the Insurer.*

(1) The City shall provide the Insurer with the following information:

(A) Notice of any draw upon or deficiency in the Reserve Account due to market fluctuation in the amount, if any, on deposit in the Reserve Account;

(B) Notice of the redemption, other than mandatory sinking fund redemption, of any of the Bonds, or of any advance refunding of the Bonds, including the principal amount, maturities and CUSIP numbers thereof;

(C) Notice of any material events pursuant to the Rule; and

(D) Such additional information as the Insurer may reasonably request from time to time.

(2) Any credit instrument provided in lieu of a cash deposit into the Reserve Account, other than one provided by the Insurer, shall conform to the requirements set forth in "Reserve Fund Surety Guidelines" in the Insurer's Commitment of Bond Insurance and attached as Exhibit B.

(3) In determining whether a payment default has occurred or whether a payment on the Bonds has been made under this ordinance, no effect shall be given to payments made under the Bond Insurance Policy.

(4) Any acceleration of the Bonds (which is not a permitted remedy) or any annulment thereof shall be subject to the prior written consent of the Insurer (if it has not failed to comply with its payment obligations under the Bond Insurance Policy).

(5) The Insurer shall receive immediate notice of any payment default and notice of any other default known to the Bond Registrar or the City within 30 days of the Bond Registrar's or the City's knowledge thereof.

(6) For all purposes of governing events of default and remedies, except the giving of notice of default to owners of the Bonds, the Insurer shall be deemed to be the sole holder of the Bonds it has insured for so long as it has not failed to comply with its payment obligations under the Bond Insurance Policy.

(7) No resignation or removal of the Bond Registrar shall become effective until a successor has been appointed and has accepted the duties of Bond Registrar. The Insurer shall be furnished with written notice of the resignation or removal of the Bond Registrar and the appointment of any successor thereto other than the appointment of a new State fiscal agent.

(8) The Insurer shall be included as a party in interest and as a party entitled to (i) notify the City or Bond Registrar of the occurrence of an event of default and (ii) request the Bond Registrar to intervene in judicial proceedings that affect the Bonds or the security therefor. The City or Bond Registrar shall be required to accept notice of default from the Insurer.

(9) Any amendment or supplement to this ordinance shall be subject to the prior written consent of the Insurer. Any rating agency rating the Bonds must receive notice of each amendment and a copy thereof at least 15 days in advance of its execution or adoption. The Insurer shall be provided with a full transcript of all proceedings relating to the execution of any such supplement or amendment.

(10) Only cash, direct non-callable obligations of the United States of America and securities fully and unconditionally guaranteed as to the timely payment of principal and interest by the United States of America, to which direct obligation or guarantee the full faith and credit of the United States of America has been pledged, Refcorp interest strips, CATS, TIGRS, STRPS, or defeased municipal bonds rated AAA by S&P or Aaa by Moody's (or any combination thereof) shall be used to effect defeasance of the Bonds unless the Insurer otherwise approves. In the event of an advance refunding, the City shall cause to be delivered a verification report of an independent nationally recognized certified public accountant. If a forward supply contract is employed in connection with the refunding, (i) such verification report shall expressly state that the adequacy of the escrow to accomplish the refunding relies solely on the initial escrowed investments and the maturing principal thereof and interest income thereon and does not assume performance under or compliance with the forward supply contract, and (ii) the applicable escrow agreement shall provide that in the event of any discrepancy or difference between the terms of the forward supply contract and the escrow agreement, the terms of the escrow agreement shall be controlling.

(11) The notice addresses for the Insurer and the Fiscal Agent are:

Financial Guaranty Insurance Company
125 Park Avenue
New York, New York 10017
Attention: Risk Management

U.S. Bank Trust National Association.
100 Wall Street, Suite 1600
New York, New York 10005
Attention: Corporate Trust Department

Section 15. Application of Bond Proceeds; Refunding Plan.

(a) *Accrued Interest.* Interest accrued on the Bonds, if any, from their date to the date of issuance shall be deposited in the Bond Fund and shall be used to pay interest on the Bonds coming due on June 1, 2004.

(b) *Refunding Proceeds.* A portion of the proceeds of sale of the Bonds in the dollar amount certified by the City to the Escrow Agent shall be delivered to the Escrow Agent for the purpose of defeasing the Refunded Bonds and paying related costs of issuance.

Money received by the Escrow Agent from Bond proceeds and other money provided by the City, including any money from the Reserve Account that may be used therefore, shall be used immediately by the Escrow Agent upon receipt thereof in accordance with the terms of the Escrow Agreement to defease the Refunded Bonds as authorized by the 1999 Bond Ordinance, and to pay costs of issuance of the Bonds. The City shall defease the Refunded Bonds and discharge such obligations by the use of money deposited with the Escrow Agent to purchase certain Government Obligations (which obligations so purchased, are herein called "Acquired Obligations"), bearing such interest and maturing as to principal and interest in such amounts and at such times which, together with any necessary beginning cash balance, will provide for the payment of each of the following bonds that have been designated as "Refunded Bonds":

(i) interest on the Refunded Bonds coming due on each date on which interest is due and payable, to and including June 1, 2009; and

(ii) the redemption price of the Refunded Bonds (100% of the principal amount thereof) on June 1, 2009.

Such Acquired Obligations shall be purchased at a yield not greater than the yield permitted by the Code and regulations relating to acquired obligations in connection with refunding bond issues.

(e) *Appointment of Escrow Agent.* The Treasurer is hereby authorized and directed to solicit proposals from and select a financial institution to act as the escrow agent for the Refunded Bonds (the "Escrow Agent"). The Bond proceeds designated in the foregoing subsection together with a cash contribution from the City shall be transferred to the Escrow Agent in order to implement the refunding plan. A beginning cash balance, if any, and Acquired Obligations shall be deposited irrevocably with the Escrow Agent in an amount sufficient to defease the Refunded Bonds. The proceeds of the Bonds remaining after acquisition of the Acquired Obligations and provision for the necessary beginning cash balance shall be utilized to pay expenses of the acquisition and safekeeping of the Acquired Obligations and expenses of the issuance of the Bonds and/or returned to the City for the payment of such expenses.

Section 16. Call For Redemption of Refunded Bonds and Escrow Agreement.

(a) *Call For Redemption of the Refunded Bonds.* The City hereby irrevocably sets aside sufficient funds out of the purchase of Acquired Obligations from proceeds of the Bonds to make the payments described in Section 15 of this ordinance.

The City hereby irrevocably calls the Refunded Bonds for redemption on June 1, 2009, in accordance with terms of the ordinance pursuant to which the Refunded Bonds were issued,

authorizing the redemption and retirement of the Refunded Bonds prior to their fixed maturities.

Said defeasance and call for redemption of the Refunded Bonds shall be effective and irrevocable after the final establishment of the escrow account and delivery of the Acquired Obligations to the Escrow Agent.

The Escrow Agent is hereby authorized and directed to provide for the giving of notice of the redemption of the Refunded Bonds in accordance with the applicable provisions of the 1999 Bond Ordinance. The Treasurer of the City is authorized and requested to provide whatever assistance is necessary to accomplish such redemption and the giving of notice therefor. The costs of publication of such notices shall be an expense of the City.

The Escrow Agent is hereby authorized and directed to pay to the fiscal agency or agencies of the State of Washington, sums sufficient to pay, when due, the payments specified in Section 15 of this ordinance. All such sums shall be paid from the moneys and Acquired Obligations deposited with said Escrow Agent pursuant to the previous section of this ordinance, and the income therefrom and proceeds thereof. All moneys and Acquired Obligations deposited with said bank and any income therefrom shall be credited to an escrow account and held, invested (but only at the direction of the Treasurer) and applied in accordance with the provisions of this ordinance and with the laws of the State of Washington for the benefit of the City and owners of the Refunded Bonds.

The City will take such actions as are found necessary to see that all necessary and proper fees, compensation and expenses of the Escrow Agent for the Refunded Bonds shall be paid when due.

(b) *Escrow Agreement.* The Treasurer is authorized and directed to execute and deliver to the Escrow Agent an Escrow Deposit Agreement substantially in the form attached

to this ordinance as Exhibit A, with such changes or modifications as the Treasurer, with the advice of bond counsel to the City, consider necessary or advisable.

The City hereby irrevocably sets aside for and pledges to the payment of the Refunded Bonds the moneys and obligations to be deposited with the Escrow Agent pursuant to the Escrow Agreement to accomplish the plan of refunding and defeasance of the Refunded Bonds set forth herein and in the Escrow Agreement. When all of the Refunded Bonds shall have been redeemed and retired, the City may cause any remaining money to be transferred to the Bond Fund for the purposes set forth above.

Section 17. Lost, Stolen or Destroyed Bonds. In case any Bond or Bonds shall be lost, stolen or destroyed, the Bond Registrar may execute and deliver a new Bond or Bonds of like date, number and tenor to the Registered Owner thereof upon the Registered Owner's paying the expenses and charges of the City in connection therewith and upon his/her filing with the City evidence satisfactory to the City that such Bond was actually lost, stolen or destroyed and of his/her ownership thereof, and upon furnishing the City with indemnity satisfactory to the City.

Section 18. Event of Defaults and Remedies.

(a) *Events of Default.* This ordinance and each supplemental ordinance adopted pursuant to Section 20 are hereinafter in this Section referred to collectively as "the Ordinance."

The City hereby finds and determines that the failure or refusal of the City or any of its officers to perform the covenants and obligations of the Ordinance will endanger the operation of the System and the application of Revenues and such other money, funds and securities to the purposes set forth herein. The City hereby covenants and agrees with the 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 any one of the following shall constitute an "Event of Default":

(1) If the City shall default in the performance of any obligation with respect to payments into the Bond Fund and such default is not remedied within a period of 30 days;

(2) If default shall be made in the due and punctual payments 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 proceeding for redemption or otherwise;

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

(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 ninety (90) days after the City shall have received from the Bondowners Committee (hereinafter defined) or from the owners of not less than twenty percent (20%) in principal amount of the Bonds outstanding, a written notice specifying, and demanding the cure of, such default;

(5) If the City shall (except as herein permitted) sell, transfer, assign or convey any properties constituting the System or interests therein, or any part or parts thereof, or shall make any agreement for such sale or transfer (except as expressly authorized by Section 8(d) hereof);

(6) If an order, judgment or decree shall be entered by a court of competent jurisdiction (a) appointing a receiver, trustee or liquidator for 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 Washington, or (c) assuming custody or control 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 such order, such custody or control shall not be otherwise terminated), within sixty days from the date of entry of such order, judgment or decree;

(7) If the City shall (a) admit in writing its inability to pay the debts of the System 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 whole or any substantial part of the System.

Provided that the Bond Insurance Policy with respect to the Bonds is in effect, upon the occurrence and continuation of an Event of Default, the Insurer shall be entitled to exercise on behalf of the owners of all of the Bonds, any of the remedies provided under this section and, for as long as the Insurer is not in default of its obligations under the Bond Insurance Policy, the Insurer shall be the only party entitled to exercise the remedies provided in this section.

(b) *Formation of Bondowners Committee.* During the continuance of an Event of Default or following the occurrence of an event that, with the passage of time and the giving of the notice would become an Event of Default and for so long as the Outstanding Parity Bonds issued prior to 2002 remain outstanding, the owners of Parity Bonds representing twenty percent (20%) in principal amount of the Parity Bonds then outstanding may call a bondowners

meeting for the purpose of electing a committee to act on behalf of all owners of Parity Bonds (the "Bondowners Committee"). Such meeting shall be called and the proceedings thereof shall be conducted in the manner provided in the ordinances authorizing the issuance of the Outstanding Parity Bonds issued prior to 2002. The provisions of this Section and the ordinances authorizing the issuance of the Outstanding Parity Bonds with respect to the Bondowners Committee and its meetings and proceeds are intended to be applicable only for so long as the Outstanding Parity Bonds remain outstanding. For as long as the Outstanding Parity Bonds issued prior to 2002 remain outstanding, the owners of the Bonds shall be entitled to participate in the selection of a Bondowners Committee, to the appointment of a receiver thereby and to the participation in Bondowners meetings with the same effect and rights as are set forth in the ordinances authorizing the issuance of the Outstanding Parity Bonds issued prior to 2002.

At such meeting the owners of Parity Bonds present in person or by proxy may, by a majority of the votes cast, elect one or more persons, who may or may not be owners of Parity Bonds, to the Bondowners Committee which shall act as trustee for all owners of Parity Bonds outstanding (the "Parity Bondowners"), and the Bondowners Committee as such trustee may have and exercise all the rights and powers provided for in this ordinance to be exercised by the Bondowners Committee. The Parity Bondowners present in person or by proxy at said meeting, or at any adjourned meeting thereof, shall prescribe the manner in which the successors of the persons elected to the Bondowners Committee at such Parity Bondowners meeting shall be elected or appointed, and may prescribe rules and regulations governing the exercise by the Bondowners Committee of the powers conferred upon it herein and in the ordinances authorizing the issuance of the Outstanding Parity Bonds issued prior to 2002, and may provide for the termination of the existence of the Bondowners Committee. The members of the Bondowners

Committee elected by the Parity Bondowners in the manner herein provided and in the ordinances authorizing the issuance of the Outstanding Parity Bonds issued prior to 2002, and their successors, as a committee are hereby declared to be trustees for the owners of all the Bonds then outstanding, and are empowered to exercise in the name of the Bondowners Committee as trustee, all the rights and powers hereinafter conferred on the Bondowners Committee.

Subject to provisions of the final paragraph in subsection (a), upon the occurrence of an Event of Default with respect to the Bonds and so long as such Event of Default shall not have been remedied, a Registered Owners' Trustee may be appointed for the Bonds by the owners of 51% in principal amount of the Outstanding Bonds by an instrument or concurrent instruments in writing signed and acknowledged by such Registered Owners or by their attorneys-in-fact duly authorized and delivered to such Registered Owners' Trustee, notification thereof being given to the City. For so long as the Bonds are held in book entry only form, communications with the owners shall be made with the securities depository who is the "Registered Owner" of the Bonds and communications with (and obtaining consents from) beneficial owners shall be made in accordance with the operational procedures of the securities depository that is the "Registered Owners' of the Bonds. Any Registered Owners' Trustee appointed under the provisions of this Section shall be a bank or trust company organized under the laws of a state or a national banking association. The fees and expenses of a Registered Owners' Trustee shall be borne by the Registered Owners and not by the City. The bank or trust company acting as a Registered Owners' Trustee may be removed at any time, and a successor Registered Owners' Trustee may be appointed by the owners of a majority in principal amount of the Bonds outstanding, by an

instrument or concurrent instruments in writing signed and acknowledged by such Registered Owners or by their attorneys-in-fact duly authorized.

The Registered Owners' Trustee appointed in the manner herein provided, and each successor thereto, is hereby declared to be a trustee for the owners of all the Bonds for which such appointment is made and is empowered to exercise all the rights and powers herein conferred on the Registered Owners' Trustee.

A Registered Owners' Trustee may upon the happening of an Event of Default and during the continuation thereof, take such steps and institute such suits, actions or other proceedings in its own name, or as trustee, all as it may deem appropriate for the protection and enforcement of the rights of Registered Owners to collect any amounts due and owing the City, or to obtain other appropriate relief, and may enforce the specific performance of any covenant, agreement or condition contained in this ordinance.

Any action, suit or other proceedings instituted by a Registered Owners' Trustee hereunder shall be brought in its name as trustee for the Registered Owners and all such rights of action upon or under any of the Bonds or the provisions of this ordinance may be enforced by a Registered Owners' Trustee without the possession of any of said Bonds, and without the production of the same at any trial or proceedings relating thereto except where otherwise required by law, and the respective owners of said Bonds by taking and holding the same, shall be conclusively deemed irrevocably to appoint a Registered Owners' Trustee the true and lawful trustee to the respective owners of said Bonds, with authority to institute any such action, suit or proceeding; to receive as trustee and deposit in trust any sums that become distributable on account of said Bonds; to execute any paper or documents for the receipt of such moneys, and to do all acts with respect thereto that the Registered Owner himself might have done in person.

Nothing herein contained shall be deemed to authorize or empower any Registered Owners' Trustee to consent to accept or adopt, on behalf of any owner of said Bonds, any plan of reorganization or adjustment affecting the said Bonds or any right of any owner thereof, or to authorize or empower the Registered Owners' Trustee to vote the claims of the owners thereof in any receivership, insolvency, liquidation, bankruptcy, reorganization or other proceeding to which the City shall be a party.

No owner of any one or more of the Bonds shall have any right to institute any action, suit or proceedings at law or in equity for the enforcement of the same, unless an Event of Default shall have happened and be continuing, and unless no Registered Owners' Trustee has been appointed as herein provided, but any remedy herein authorized to be exercised by a Registered Owners' Trustee may be exercised individually by any Registered Owner, in his own name and on his own behalf or for the benefit of all Registered Owners, in the event no Registered Owners' Trustee has been appointed, or with the consent of the Registered Owners' Trustee if such Registered Owners' Trustee has been appointed; provided however, that nothing in this ordinance or in the Bonds shall affect or impair the obligation of the City which is absolute and unconditional, to pay from Net Revenue the principal of and interest on said Bonds to the respective owners thereof at the respective due dates therein specified, or affect or impair the right of action, which is absolute and unconditional, of such owners to enforce such payments.

The remedies herein conferred upon or reserved to the owners of the Bonds and to a Registered Owners' Trustee and the Insurer are not intended to be exclusive of any other remedy or remedies, and each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute.

The privileges herein granted shall be exercised from time to time and continued so long as and as often as the occasion therefor may arise and no waiver of any default hereunder, whether by a Registered Owners' Trustee, the owners of Bonds or the Insurer, shall extend to or shall affect any subsequent default or shall impair any rights or remedies consequent thereon. No delay or omission of the Registered Owners, a Registered Owners' Trustee or the Insurer to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or acquiescence therein.

Upon any such waiver, such Event of Default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured, for every purpose of this ordinance; but no such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

(c) *Books of City Open to Inspection.* The City covenants that if an Event of Default shall have happened and shall not have been remedied, the books of record and account of the City and all other records relating to the System shall at all times during regular business hours be subject to the inspection and use of the Bondowners Committee and any person owning at least twenty percent (20%) of the principal amount of Bonds outstanding and of their respective agents and attorneys.

The City covenants that if an Event of Default shall happen and shall not have been remedied, the City will continue to account, as a trustee of an express trust, for all Revenues and other moneys, securities and funds pledged under the Ordinance.

Section 19. Undertaking to Provide Ongoing Disclosure.

(a) *Contract/Undertaking.* This Section constitutes the City's written undertaking for the benefit of the owners of the Bonds as required by Section (b)(5) of the Rule.

(b) *Financial Statements/Operating Data.* The City agrees to provide or cause to be provided to each NRMSIR and to the SID, if any, in each case as designated by the Commission in accordance with the Rule, the following annual financial information and operating data for the prior fiscal year (commencing in 2005 for the fiscal year ended December 31, 2004):

(1) annual financial statements showing ending fund balances for the System prepared in accordance with generally accepted accounting principles applicable to government entities (and modified as may be required by the Washington State Auditor pursuant to RCW 43.09.200 (or any successor statutes)) and generally of the type included in the official statement for the Bonds under the heading "THE SYSTEM--Water and Sewer System, Historical Operating Results;" and

(2) updated versions of the type of historical financial information and operating data contained in the official statement for the Bonds under the headings "THE SYSTEM--Water Rates and Charges," "--Historical Water Operating Statistics," "--Sewer Rates and Charges," and "--Historical Sewer Customers," and "DEBT INFORMATION--Schedule of System Debt Service".

Such annual information and operating data described above shall be so provided on or before the expiration of nine months after the end of the City's fiscal year. The City may adjust such date if the City changes its fiscal year by providing written notice of the change of fiscal year and the new reporting date to each then existing NRMSIR and the SID, if any. In lieu of providing such annual financial information and operating data, the City may cross-reference to other documents provided to the NRMSIR's, the SID or to the Commission and, if such document is a final official statement within the meaning of the Rule, available from the MSRB.

If not provided as part of the annual financial information discussed above, the City shall provide the City's audited annual financial statement prepared in accordance with regulations prescribed by the State Auditor pursuant to RCW 43.09.200 (or any successor statutes), when and if available, to each then existing NRMSIR and the SID, if any.

(c) *Material Events.* The City agrees to provide or cause to be provided, in a timely manner, to the SID, if any, and to each NRMSIR or to the MSRB notice of any of the following events with respect to the Bonds, if material:

- Principal and interest payment delinquencies;
- Non-payment related defaults;
- Unscheduled draws on debt service reserves reflecting financial difficulties;
- Unscheduled draws on credit enhancements reflecting financial difficulties;
- Substitution of credit or liquidity providers, or their failure to perform;
- Adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- Modifications to rights of Bondholders;
- Bond calls;
- Defeasances;
- Release, substitution or sale of property securing repayment of the Bonds;
- and
- Rating changes.

Solely for purposes of disclosure, and not intending to modify this undertaking, the City advises that there is no property securing repayment of the Bonds.

(d) *Notification Upon Failure to Provide Financial Data.* The City agrees to provide or cause to be provided, in a timely manner, to each NRMSIR or to the MSRB and to the SID, if any, notice of its failure to provide the annual financial information described in subsection (b) above on or prior to the date set forth in subsection (b) above.

(e) *Termination/Modification.* The City's obligations to provide annual financial information and notices of material events shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. Any provision of this Section shall be null and void if the City (1) obtains an opinion of nationally recognized bond counsel to the effect that the portion of the Rule that requires that provision is invalid, has been repealed retroactively or otherwise does not apply to the Bonds and (2) notifies each NRMSIR and the SID, if any, of such opinion and the cancellation of this section.

The City may amend this Section with an opinion of nationally recognized bond counsel in accordance with the Rule. In the event of any amendment of this Section, the City shall describe such amendment in the next annual report, and shall include, a narrative explanation of the reason for the amendment and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a material event under subsection (c), and (ii) the annual report for the year in which the change is made shall present a comparison (in narrative form and also, if feasible, in quantitative form)

between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

(f) *Bond Owner's Remedies Under This Section.* The right of any Bondowner or Beneficial Owner of Bonds to enforce the provisions of this Section shall be limited to a right to obtain specific enforcement of the City's obligations under this Section, and any failure by the City to comply with the provisions of this undertaking shall not be an Event of Default with respect to the Bonds. For purposes of this section, "Beneficial Owner" means any person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds, including persons holding Bonds through nominees or depositories.

(g) *No Default.* The City is not and, except as may be described in the final Official Statement with respect to the Bonds, the City has not been in default in the performance of its obligations of any prior undertaking for ongoing disclosure with respect to its bond obligations. The failure of the City in any respect to comply with the terms of this Section 19 or with the terms of any other commitment for ongoing disclosure under the Rule shall not constitute an Event of Default under this ordinance.

Section 20. Amendments.

(a) The Council from time to time and at any time may pass an ordinance or ordinances supplemental hereof, which ordinance or ordinances thereafter shall become a part of the Ordinance, for any one or more or all of the following purposes:

(1) To add to the covenants and agreements of the City in the Ordinance, other covenants and agreements thereafter to be observed, which shall not adversely affect the interests of the owners of any Parity Bonds, or to surrender any right or power herein reserved.

(2) To make such provisions for the purpose of curing any ambiguities or of curing, correcting or supplementing any defective provision contained in the Ordinance or any ordinance authorizing Future Parity Bonds in regard to matters or questions arising under such ordinances as the Council may deem necessary or desirable and not inconsistent with such ordinances and which shall not adversely affect, in any material respect, the interest of the owners of Bonds. In any such supplemental ordinance may be adopted without the consent of the owners of any Bonds at any time outstanding, notwithstanding any of the provisions of subsection (b) of this section.

(b) With the consent of the owners of not less than sixty-five percent (65%) in aggregate principal amount of the Bonds at the time outstanding, the Council may pass an ordinance or ordinances supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Ordinance or of any supplemental ordinance; provided, however, that no such supplemental ordinance shall:

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

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

It shall not be necessary for the consent of Bondowners under this subsection (b) to approve the particular form of any proposed supplemental ordinance, but it shall be sufficient if such consent shall approve the substance thereof. For the purpose of consenting to amendments

under this subsection (b), the Insurer shall be deemed to be the sole Registered Owner of the Bonds then outstanding.

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

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

(e) *Obtaining Approval of Amendments at Bondowners Meeting.* The provisions of this subsection (e) shall be applicable to the owners of the Bonds only for so long as any of the Outstanding Parity Bonds issued prior to 2002 remain outstanding. 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 20 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 Parity Bondowners duly convened and held in accordance with the

provisions of Section 22 of the Ordinance. A record in duplicate of the proceedings of each meeting of the Parity 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 Chairperson 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 matter therein stated. If the ordinance of the City making such amendment shall be approved by a resolution duly adopted at such meeting of Parity Bondowners by the affirmative vote of the owners of the required percentages of Parity Bonds, a notice stating that a resolution approving such amendment has been so adopted shall be mailed by the City to each Parity Bondowner who has requested such notice (but failure so to mail copies of such notice shall not affect the validity of such resolution) and shall be published at least once in the manner provided in the ordinances authorizing the issuance of the Outstanding Parity Bonds. 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, the paying agents, and the owners of all Parity Bonds at the expiration of thirty days after the publication of the notice provided for in this Section, except in the event of a final decree of a 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 and any paying agents during such thirty 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 Parity 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 Parity Bondowners under any of the provisions of the Ordinance.

(f) *Alternate Method of Obtaining Approval of Amendments.* The provisions of this subsection (f) shall be applicable to the owners of the Bonds only for so long as any of the Outstanding Parity Bonds issued prior to 2002 remain outstanding. The City may at any time adopt an ordinance amending the provisions of the Ordinance, or of any Parity Bonds, to the extent that such amendment is permitted by the provisions of this Section, to take effect when and as provided in this Section. Upon adoption of such ordinance, a request that Parity Bondowners consent thereto shall be mailed by the City to the Parity Bondowners and notice that the City is requesting Parity Bondowners to consent to such amendment shall be published at least once in the manner provided in the ordinances authorizing the issuance of the Outstanding Parity Bonds. 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 Parity Bonds specified in Section 20 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 Parity Bonds for which such consent is given. A certificate or certificates of the Clerk of the City that 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 Parity Bonds described in such certificate or certificates. Any such consent shall be binding upon the owner of the Parity Bonds

giving such consent and on every subsequent owner of such Parity 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 Parity Bonds and will be effective as provided in this Section may be given to the Parity Bondowners by mailing such notice to the Parity Bondowners, and shall be given by publishing the same at least once in the manner provided in the ordinances authorizing the issuance of the Outstanding Parity Bonds. 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 Parity Bonds at the expiration of thirty 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.

(g) *Amendment of Ordinance in Any Respect by Approval of All Parity Bondowners.* The provisions of this subsection (g) shall be applicable to the owners of the Bonds only for so long as any of the Outstanding Parity Bonds issued prior to 2002 remain outstanding. Notwithstanding anything contained in the foregoing provisions of this Section, the rights and obligations of the City and of the owners of the Parity Bonds, and the terms and provisions of the Parity 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 Parity Bonds then outstanding at a meeting of Parity 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 Parity Bonds then outstanding, such consent to be given as provided in Section 20, 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 Parity Bondowners.

(h) *Exclusion of Parity Bonds Owned by City.* Parity 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 Parity Bonds in the Ordinance provided for, and shall not be entitled to vote or consent or take any other action in the Ordinance provided for.

(i) *Bonds Held by Securities Repositories.* For so long as the Bonds are held in book entry only form, communications with the owners shall be made with the securities depository who is the "Registered Owner" of the Bonds and communications with (and obtaining consents from) beneficial owners shall be made in accordance with the operational procedures of the securities depository that is the "Registered Owner of the Bonds.

Section 21. Defeasance. In the event that money and/or Government Obligations maturing or having guaranteed redemption prices at the option of the holder at such time or times and bearing interest to be earned thereon in amounts (together with such money, if any) sufficient to redeem and retire part or all of the Bonds in accordance with the their terms, are hereafter irrevocably set aside in a special account and pledged to effect such redemption and retirement, then no further payments need be made into the Bond Fund or any account therein for the payment of the principal of and interest on the certain Bonds so provided for and such Bonds shall then cease to be entitled to any lien, benefit or security of this ordinance, except the right to receive the funds so set aside and pledged, and such Bonds shall no longer be deemed to be outstanding hereunder, or under any ordinance authorizing the issuance of bonds or other indebtedness of the City.

Within 60 days of any defeasance of Bonds the Bond Registrar shall provide notice of defeasance of Bonds to registered owners, the Insurer and to each NRMSIR and SID, if any, in accordance with Section 19.

Section 22. Bondowners Meeting. The provisions of this Section 22 shall be applicable to the owners of the Bonds only for so long as the Outstanding Parity Bonds issued prior to 2002 remain outstanding.

(a) *Call of Bondowners Meeting.* The City, the Bondowners Committee or the owners of not less than twenty percent (20%) in principal amount of the Parity Bonds then outstanding may at any time call a meeting of the owners of the Parity Bonds. Every such meeting shall be held at such place in the City of Vancouver, State of Washington, or in the City of Seattle, State of Washington, 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 Parity Bondowners by the City, the Bondowners Committee or the Parity 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 successive calendar weeks on any day of the week, the date of first publication to be not less than thirty (30) or more than sixty day 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 Parity Bondowners shall, however, be valid without notice if the owners of all Parity Bonds then outstanding are present in person or by proxy or if notice is waived before or within thirty days after the meeting by those not so present.

(b) *Notice to Parity Bondowners.* Except as otherwise provided in this ordinance, any provision in this ordinance for the mailing of a notice or other paper to Parity Bondowners shall be fully complied with if it is mailed postage prepaid to each registered owner of any of the Parity Bonds then outstanding at his address, if any, appearing upon the Bond Register of the City, and any provision in this ordinance contained for publication of a notice or other matter shall require the publication thereof in The Bond Buyer in the City of New York, State of New York (or in lieu of publication in The Bond Buyer, in a daily newspaper printed in the English language and customarily published on each business day and of general circulation in the Borough of Manhattan, the City of New York, State of New York), and also in a daily newspaper printed in the English language and customarily published on each business day and of general circulation in the City of Seattle, State of Washington.

(c) *Proxies; Proof of Ownership of Parity Bonds.* Attendance and voting by Parity Bondowners at such meetings may be in person or by proxy. Owners of Parity Bonds may, by an instrument in writing under their hands, appoint any person or persons, with full power of substitution, as their proxy to vote at any meeting for them.

Any owner of Parity Bonds shall be entitled in person or by proxy to attend and vote at such meeting as owner of the Parity Bonds registered in his name without producing such Parity Bonds (unless the Parity Bonds described in such certificate shall be registered in the name of or be produced by some other person at such meeting), 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. All other persons seeking to attend or vote in such meeting must produce the Parity Bonds claimed to be owned or represented at such meeting.

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

(d) *Execution of Instruments by Parity Bondowners.* Any request, direction, consent or other instrument in writing required or permitted by the Ordinance to be signed or executed by Parity Bondowners may be in any number of concurrent instruments of similar tenor, and may be signed or executed by such Parity 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 the 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 Parity Bond shall bind every future owner of the same Parity Bond in respect of anything done by the City in pursuance of such request, direction or consent.

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

(e) *Appointment of Officers at Bondowners Meetings.* Persons named by the City or elected by the owners of a majority in principal amount of the Parity 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 Chairperson and temporary Secretary of any meeting of Parity Bondowners. A permanent Chairperson and a permanent Secretary of such meeting shall be elected by the owners of a majority in principal amount of the Parity Bonds represented at such meeting in person or by proxy. The permanent Chairperson of the meeting shall appoint two Inspectors of Votes who shall count all votes cast at such meeting, except votes on the election of Chairperson 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.

(f) *Quorum at Bondowners Meetings.* The owners of not less than the principal amount of the Parity 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 days, notice thereof shall be published by the City at least five days prior to the adjourned date of the meeting.

Section 23. Repeal of Ordinance No. M-3625. The City hereby repeals Ordinance No. M-3625 in its entirety.

Section 24. Severability. If any provision in this ordinance is declared by any court of competent jurisdiction to be contrary to law, then such provision shall be null and void and shall be deemed separable from the remaining provision of this ordinance and shall in no way affect the validity of the other provisions of this ordinance or of the Bonds.

Section 25. Effective Date. This ordinance shall be in effect immediately upon its passage.

Passed by the City Council of the City of Vancouver, Washington, at a regular meeting of Council and signed by its Mayor, this 2nd day of February, 2004.

Read First Time: 1-26-04

PASSED by the following vote:

AYES: 7

Councilmembers Smith, Leavitt, Stewart
Harris, Jollota, Tonkovich
Pollard

NAYS: None

Councilmembers

ABSENT: None

Councilmembers

Read Second Time: 2-2-04

PASSED by the following vote:

AYES: 5

Councilmembers Smith, Leavitt, Stewart
Jollota, Tonkovich

NAYS: 0

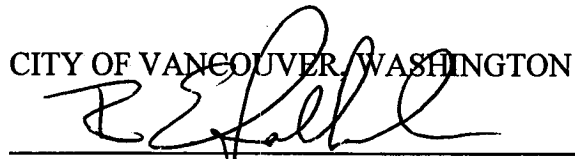
Councilmembers

ABSENT: 2

Councilmembers Harris, Pollard

SIGNED this 2nd day of Feb., 2004.

CITY OF VANCOUVER, WASHINGTON



Mayor

ATTEST:



City Clerk

APPROVED AS TO FORM:



City Attorney

EXHIBIT A

ESCROW DEPOSIT AGREEMENT CITY OF VANCOUVER, WASHINGTON WATER AND SEWER REVENUE REFUNDING BONDS, 2004

THIS ESCROW AGREEMENT, dated as of February 26, 2004 (herein, together with any amendments or supplements hereto, called the "Agreement") is entered into by and between the City of Vancouver, Washington (herein called the "City") and U.S. Bank National Association, Portland, Oregon as escrow agent (herein, together with any successor in such capacity, called the "Escrow Agent"). The notice addresses of the City and the Escrow Agent are shown on Exhibit A attached hereto and made a part hereof.

WITNESSETH:

WHEREAS, the City heretofore has issued and there presently remain outstanding the obligations described in Exhibit B attached hereto (the "Refunded Bonds"); and

WHEREAS, pursuant to Ordinance No. M-3644 adopted on February 2, 2004 (the "Bond Ordinance"), the City has determined to issue its Water and Sewer Revenue Refunding Bonds, 2004 (the "Bonds"); and

WHEREAS, the proceeds of the Bonds, together with a cash contribution from the City, are being used for the purpose of providing funds to pay the costs of refunding the Refunded Bonds; and

WHEREAS, the Escrow Agent has reviewed the Bond Ordinance and this Agreement, and is willing to serve as Escrow Agent hereunder; and

WHEREAS, Causey Demgen & Moore, Inc., Certified Public Accountants of Denver, Colorado has prepared a verification report which is dated February 26, 2004 (the "Verification Report") relating to the source and use of funds available to accomplish the refunding of the Refunded Bonds, the investment of such funds and the adequacy of such funds and investments to provide for the payment of the debt service due on the Refunded Bonds; and

WHEREAS, pursuant to the Bond Ordinance, the Refunded Bonds have been designated for redemption prior to their scheduled maturity dates and, after provision is made for such redemption, the Refunded Bonds will come due in such years, bear interest at such rates, and be payable at such times and in such amounts as are set forth in Exhibit C attached hereto and made a part hereof; and

WHEREAS, when Escrowed Securities have been deposited with the Escrow Agent for the payment of all principal and interest of the Refunded Bonds when due, then the Refunded Bonds shall no longer be regarded as outstanding except for the purpose of receiving payment from the funds provided for such purpose; and

WHEREAS, the issuance, sale, and delivery of the Bonds have been duly authorized to be issued, sold, and delivered for the purpose of obtaining the funds required to provide for the payment of the principal of, interest on and redemption premium (if any) on the Refunded Bonds when due as shown on Exhibit C attached hereto; and

WHEREAS, the City desires that, concurrently with the delivery of the Bonds to the purchasers thereof, the proceeds of the Bonds, together with certain other available funds of the City, shall be applied to purchase certain obligations of the United States of America hereinafter defined as the "Escrowed Securities" for deposit to the credit of the Escrow Fund created pursuant to the terms of this Agreement and to establish a beginning cash balance (if needed) in such Escrow Fund; and

WHEREAS, the Escrowed Securities shall mature and the interest thereon shall be payable at such times and in such amounts so as to provide moneys which, together with cash balances from time to time on deposit in the Escrow Fund, will be sufficient to pay interest on the Refunded Bonds as it accrues and becomes payable and the principal of the Refunded Bonds as it becomes due and payable; and

WHEREAS, to facilitate the receipt and transfer of proceeds of the Escrowed Securities, particularly those in book entry form, the City desires to establish the Escrow Fund at the corporate trust office of the Escrow Agent in Portland, Oregon; and

WHEREAS, the Escrow Agent is a party to this Agreement to acknowledge its acceptance of the terms and provisions hereof;

NOW, THEREFORE, in consideration of the mutual undertakings, promises and agreements herein contained, the sufficiency of which hereby are acknowledged, and to secure the full and timely payment of principal of and the interest on the Refunded Bonds, the City and the Escrow Agent mutually undertake, promise and agree for themselves and their respective representatives and successors, as follows:

Article 1. Definitions

Section 1.1. Definitions.

Unless the context clearly indicates otherwise, the following terms shall have the meanings assigned to them below when they are used in this Agreement:

Escrow Fund means the fund created by this Agreement to be established, held and administered by the Escrow Agent pursuant to the provisions of this Agreement.

Escrowed Securities means the noncallable Government Obligations described in Exhibit D attached to this Agreement, or cash or other noncallable obligations substituted therefor pursuant to Section 4.2 of this Agreement.

Government Obligations means direct, noncallable (a) United States Treasury Obligations, (b) United States Treasury Obligations - State and Local Government Series,

(c) non-prepayable obligations which are unconditionally guaranteed as to full and timely payment of principal and interest by the United States of America or (d) REFCORP debt obligations unconditionally guaranteed by the United States.

Paying Agent means the fiscal agency of the State of Washington, as the paying agent for the Refunded Bonds.

Section 1.2. Other Definitions.

The terms "Agreement," "City," "Escrow Agent," "Bond Ordinance," "Verification Report," "Refunded Bonds," and "Bonds" when they are used in this Agreement, shall have the meanings assigned to them in the preamble to this Agreement.

Section 1.3. Interpretations.

The titles and headings of the articles and sections of this Agreement have been inserted for convenience and reference only and are not to be considered a part hereof and shall not in any way modify or restrict the terms hereof. This Agreement and all of the terms and provisions hereof shall be liberally construed to effectuate the purposes set forth herein and to achieve the intended purpose of providing for the refunding of the Refunded Bonds in accordance with applicable law.

Article 2. Deposit of Funds and Escrowed Securities

Section 2.1. Deposits in the Escrow Fund.

Concurrently with the sale and delivery of the Bonds the City shall deposit, or cause to be deposited, with the Escrow Agent, for deposit in the Escrow Fund, the funds (from the proceeds of the Bonds and a cash contribution by the City) sufficient to purchase the Escrowed Securities and pay costs of issuance described in Exhibit D attached hereto, and the Escrow Agent shall, upon the receipt thereof, acknowledge such receipt to the City in writing.

Article 3. Creation and Operation of Escrow Fund

Section 3.1. Escrow Fund.

The Escrow Agent has created on its books a special trust fund and irrevocable escrow to be known as the Refunding Account (the "Escrow Fund"). The Escrow Agent hereby agrees that upon receipt thereof it will deposit to the credit of the Escrow Fund the funds and the Escrowed Securities described in Exhibit D attached hereto and pay Costs of Issuance as described in Exhibit D. Such deposit, all proceeds therefrom, and all cash balances from time to time on deposit therein (a) shall be the property of the Escrow Fund, (b) shall be applied only in strict conformity with the terms and conditions of this Agreement, and (c) are hereby irrevocably pledged to the payment of the principal of and interest on the Refunded Bonds, which payment shall be made by timely transfers of such amounts at such times as are provided for in Section 3.2 hereof. When the final transfers have been made for the payment of such principal of and interest on the Refunded Bonds, any balance then remaining in the Escrow Fund shall be

transferred to the City, and the Escrow Agent shall thereupon be discharged from any further duties hereunder.

Section 3.2. Payment of Principal and Interest.

The Escrow Agent is hereby irrevocably instructed to transfer to the Paying Agent from the cash balances from time to time on deposit in the Escrow Fund, the amounts required to pay the principal of the Refunded Bonds at their respective redemption dates and interest thereon to such redemption dates in the amounts and at the times shown in Exhibit C attached hereto.

Section 3.3. Sufficiency of Escrow Fund.

The City represents that, based upon the information provided in the Verification Report, the successive receipts of the principal of and interest on the Escrowed Securities will assure that the cash balance on deposit from time to time in the Escrow Fund will be at all times sufficient to provide moneys for transfer to the Paying Agent at the times and in the amounts required to pay the interest on the Refunded Bonds as such interest comes due and the principal of the Refunded Bonds as the Refunded Bonds are paid on an optional redemption date prior to maturity, all as more fully set forth in Exhibit E attached hereto. If, for any reason, at any time, the cash balances on deposit or scheduled to be on deposit in the Escrow Fund shall be insufficient to transfer the amounts required by the Paying Agent to make the payments set forth in Section 3.2. hereof, the City shall timely deposit in the Escrow Fund, from any funds that are lawfully available therefor, additional funds in the amounts required to make such payments. Notice of any such insufficiency shall be given promptly as hereinafter provided, but the Escrow Agent shall not in any manner be responsible for any insufficiency of funds in the Escrow Fund or the City's failure to make additional deposits thereto.

Section 3.4. Trust Fund.

The Escrow Agent or its affiliate, shall hold at all times the Escrow Fund, the Escrowed Securities and all other assets of the Escrow Fund, wholly segregated from all other funds and securities on deposit with the Escrow Agent; it shall never allow the Escrowed Securities or any other assets of the Escrow Fund to be commingled with any other funds or securities of the Escrow Agent; and it shall hold and dispose of the assets of the Escrow Fund only as set forth herein. The Escrowed Securities and other assets of the Escrow Fund shall always be maintained by the Escrow Agent as trust funds for the benefit of the owners of the Refunded Bonds; and a special account thereof shall at all times be maintained on the books of the Escrow Agent. The owners of the Refunded Bonds shall be entitled to the same preferred claim and first lien upon the Escrowed Securities, the proceeds thereof, and all other assets of the Escrow Fund to which they are entitled as owners of the Refunded Bonds. The amounts received by the Escrow Agent under this Agreement shall not be considered as a banking deposit by the City, and the Escrow Agent shall have no right to title with respect thereto except as a trustee and Escrow Agent under the terms of this Agreement. The amounts received by the Escrow Agent under this Agreement shall not be subject to warrants, drafts or checks drawn by the City or, except to the extent expressly herein provided, by the Paying Agent.

Article 4. Limitation on Investments

Section 4.1. Investments.

Except for the initial investment in the Escrowed Securities, and except as provided in Section 4.2 hereof, the Escrow Agent shall not have any power or duty to invest or reinvest any money held hereunder, or to make substitutions of the Escrowed Securities, or to sell, transfer, or otherwise dispose of the Escrowed Securities.

Section 4.2. Substitution of Securities.

At the written request of the City, and upon compliance with the conditions hereinafter stated, the Escrow Agent shall utilize cash balances in the Escrow Fund, or sell, transfer, otherwise dispose of or request the redemption of the Escrowed Securities and apply the proceeds therefrom to purchase Refunded Bonds or Government Obligations which do not permit the redemption thereof at the option of the obligor. Any such transaction may be effected by the Escrow Agent only if (a) the Escrow Agent shall have received a written opinion from a firm of certified public accountants that such transaction will not cause the amount of money and securities in the Escrow Fund to be reduced below an amount sufficient to provide for the full and timely payment of principal of and interest on all of the remaining Refunded Bonds as they become due, taking into account any optional redemption thereof exercised by the City in connection with such transaction; and (b) the Escrow Agent shall have received the unqualified written legal opinion of the City's bond counsel or tax counsel to the effect that such transaction will not cause any of the Bonds or Refunded Bonds to be an "arbitrage bond" within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended.

Article 5. Application of Cash Balances

Section 5.1. In General.

Except as provided in Sections 2.1, 3.2 and 4.2 hereof, no withdrawals, transfers, or reinvestment shall be made of cash balances in the Escrow Fund. Cash balances shall be held by the Escrow Agent in United States currency as cash balances as shown on the books and records of the Escrow Agent and, except as provided herein, shall not be reinvested by the Escrow Agent; provided, however, a conversion to currency shall not be required (i) for so long as the Escrow Agent's internal rate of return does not exceed 20%, or (ii) if the Escrow Agent's internal rate of return exceeds 20%, the Escrow Agent receives a letter of instructions, accompanied by the opinion of nationally recognized bond counsel, approving the assumed reinvestment of such proceeds at such higher yield.

Article 6. Redemption of Refunded Bonds

Section 6.1. Call for Redemption.

The City hereby irrevocably calls the Refunded Bonds for redemption on their earliest redemption dates, as shown in the Verification Report and on Appendix A-1 attached hereto.

Section 6.2. Notice of Redemption/Notice of Defeasance.

The Escrow Agent agrees to give a notice of defeasance and a notice of the redemption of the Refunded Bonds pursuant to the terms of the Refunded Bonds and in substantially the forms attached hereto as Appendices A-1 through A-2 attached hereto and as described on said Appendices A-1 through A-2 to the Paying Agent for distribution as described therein. The notice of defeasance shall be given immediately following the execution of this Agreement, and the notice of redemption shall be given in accordance with the ordinance authorizing the Refunded Bonds. The Escrow Agent hereby certifies that provision satisfactory and acceptable to the Escrow Agent has been made for the giving of notice of redemption of the Refunded Bonds.

Article 7. Records and Reports

Section 7.1. Records.

The Escrow Agent will keep books of record and account in which complete and accurate entries shall be made of all transactions relating to the receipts, disbursements, allocations and application of the money and Escrowed Securities deposited to the Escrow Fund and all proceeds thereof, and such books shall be available for inspection during business hours and after reasonable notice.

Section 7.2. Reports.

While this Agreement remains in effect, the Escrow Agent quarterly shall prepare and send to the City a written report summarizing all transactions relating to the Escrow Fund during the preceding financial quarter, including, without limitation, credits to the Escrow Fund as a result of interest payments on or maturities of the Escrowed Securities and transfers from the Escrow Fund for payments on the Refunded Bonds or otherwise, together with a detailed statement of all Escrowed Securities and the cash balance on deposit in the Escrow Fund as of the end of such period.

Article 8. Concerning the Paying Agents and Escrow Agent

Section 8.1. Representations.

The Escrow Agent hereby represents that it has all necessary power and authority to enter into this Agreement and undertake the obligations and responsibilities imposed upon it herein, and that it will carry out all of its obligations hereunder.

Section 8.2. Limitation on Liability.

The liability of the Escrow Agent to transfer funds for the payment of the principal of and interest on the Refunded Bonds shall be limited to the proceeds of the Escrowed Securities and the cash balances from time to time on deposit in the Escrow Fund. Notwithstanding any provision contained herein to the contrary, the Escrow Agent shall have no liability whatsoever for the insufficiency of funds from time to time in the Escrow Fund or any failure of the obligors

of the Escrowed Securities to make timely payment thereon, except for the obligation to notify the City promptly of any such occurrence.

The recitals herein and in the proceedings authorizing the Bonds shall be taken as the statements of the City and shall not be considered as made by, or imposing any obligation or liability upon, the Escrow Agent.

The Escrow Agent is not a party to the proceedings authorizing the Bonds or the Refunded Bonds and is not responsible for nor bound by any of the provisions thereof (except to the extent that the Escrow Agent may be a place of payment and paying agent and/or a paying agent/registrar therefor). In its capacity as Escrow Agent, it is agreed that the Escrow Agent need look only to the terms and provisions of this Agreement.

The Escrow Agent makes no representations as to the value, conditions or sufficiency of the Escrow Fund, or any part thereof, or as to the title of the City thereto, or as to the security afforded thereby or hereby, and the Escrow Agent shall not incur any liability or responsibility in respect to any of such matters.

It is the intention of the parties hereto that the Escrow Agent shall never be required to use or advance its own funds or otherwise incur personal financial liability in the performance of any of its duties or the exercise of any of its rights and powers hereunder.

The Escrow Agent shall not be liable for any action taken or neglected to be taken by it in good faith in any exercise of reasonable care and believed by it to be within the discretion or power conferred upon it by this Agreement, nor shall the Escrow Agent be responsible for the consequences of any error of judgment; and the Escrow Agent shall not be answerable except for its own neglect or willful misconduct, nor for any loss unless the same shall have been through its negligence or bad faith.

Unless it is specifically otherwise provided herein, the Escrow Agent has no duty to determine or inquire into the happening or occurrence of any event or contingency or the performance or failure of performance of the City with respect to arrangements or contracts with others, with the Escrow Agent's sole duty hereunder being to safeguard the Escrow Fund, to dispose of and deliver the same in accordance with this Agreement. If, however, the Escrow Agent is called upon by the terms of this Agreement to determine the occurrence of any event or contingency, the Escrow Agent shall be obligated, in making such determination, only to exercise reasonable care and diligence, and in event of error in making such determination the Escrow Agent shall be liable only for its own willful misconduct or its negligence. In determining the occurrence of any such event or contingency the Escrow Agent may request from the City or any other person such reasonable additional evidence as the Escrow Agent in its discretion may deem necessary to determine any fact relating to the occurrence of such event or contingency, and in this connection may make inquiries of, and consult with, among others, the City at any time.

Section 8.3. Compensation.

The City shall pay to the Escrow Agent fees for performing the services hereunder and for the expenses incurred or to be incurred by the Escrow Agent in the administration of this Agreement pursuant to the terms of the Fee Schedule attached hereto as Appendix B. The Escrow Agent hereby agrees that in no event shall it ever assert any claim or lien against the Escrow Fund for any fees for its services, whether regular or extraordinary, as Escrow Agent, or in any other capacity, or for reimbursement for any of its expenses as Escrow Agent or in any other capacity.

Section 8.4. Successor Escrow Agents.

Any corporation, association or other entity into which the Escrow Agent may be converted or merged, or with which it may be consolidated, or to which it may sell or otherwise transfer all or substantially all of its corporate trust assets and business or any corporation, association or other entity resulting from any such conversion, sale, merger, consolidation or other transfer to which it is a party, *ipso facto*, shall be and become successor escrow agent hereunder, vested with all other matters as was its predecessor, without the execution or filing of any instrument or any further act on the part of the parties hereto, notwithstanding anything herein to the contrary.

If at any time the Escrow Agent or its legal successor or successors should become unable, through operation or law or otherwise, to act as escrow agent hereunder, or if its property and affairs shall be taken under the control of any state or federal court or administrative body because of insolvency or bankruptcy or for any other reason, a vacancy shall forthwith exist in the office of Escrow Agent hereunder. In such event the City, by appropriate action, promptly shall appoint an Escrow Agent to fill such vacancy. If no successor Escrow Agent shall have been appointed by the City within 60 days, a successor may be appointed by the owners of a majority in principal amount of the Refunded Bonds then outstanding by an instrument or instruments in writing filed with the City, signed by such owners or by their duly authorized attorneys-in-fact. If, in a proper case, no appointment of a successor Escrow Agent shall be made pursuant to the foregoing provisions of this section within three months after a vacancy shall have occurred, the owner of any Refunded Bond may apply to any court of competent jurisdiction to appoint a successor Escrow Agent. Such court may thereupon, after such notice, if any, as it may deem proper, prescribe and appoint a successor Escrow Agent.

Any successor Escrow Agent shall be a corporation organized and doing business under the laws of the United States or the State of Washington, authorized under such laws to exercise corporate trust powers, having its principal office and place of business in the State of Washington, having a combined capital and surplus of at least \$50,000,000 and subject to the supervision or examination by federal or state authority.

Any successor Escrow Agent shall execute, acknowledge and deliver to the City and the Escrow Agent an instrument accepting such appointment hereunder, and the Escrow Agent shall execute and deliver an instrument transferring to such successor Escrow Agent, subject to the terms of this Agreement, all the rights, powers and trusts of the Escrow Agent hereunder. Upon the request of any such successor Escrow Agent, the City shall execute any and all instruments in

writing for more fully and certainly vesting in and confirming to such successor Escrow Agent all such rights, powers and duties.

The obligations assumed by the Escrow Agent pursuant to this Agreement may be transferred by the Escrow Agent to a successor Escrow Agent if (a) the requirements of this Section 8.4 are satisfied; (b) the successor Escrow Agent has assumed all the obligations of the Escrow Agent under this Agreement; and (c) all of the Escrowed Securities and money held by the Escrow Agent pursuant to this Agreement have been duly transferred to such successor Escrow Agent.

Article 9. Miscellaneous

Section 9.1. Notice.

Any notice, authorization, request, or demand required or permitted to be given hereunder shall be in writing and shall be deemed to have been duly given when mailed by registered or certified mail, postage prepaid addressed to the City or the Escrow Agent at the address shown on Exhibit A attached hereto. The United States Post Office registered or certified mail receipt showing delivery of the aforesaid shall be conclusive evidence of the date and fact of delivery. Any party hereto may change the address to which notices are to be delivered by giving to the other parties not less than ten days prior notice thereof.

Section 9.2. Termination of Responsibilities.

Upon the taking of all the actions as described herein by the Escrow Agent, the Escrow Agent shall have no further obligations or responsibilities hereunder to the City, the owners of the Refunded Bonds or to any other person or persons in connection with this Agreement.

Section 9.3. Binding Agreement.

This Agreement shall be binding upon the City and the Escrow Agent and their respective successors and legal representatives, and shall inure solely to the benefit of the owners of the Refunded Bonds, the City, the Escrow Agent and their respective successors and legal representatives.

Section 9.4. Severability.

In case any one or more of the provisions contained in this Agreement shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions of this Agreement, but this Agreement shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein.

Section 9.5. Washington Law Governs.

This Agreement shall be governed exclusively by the provisions hereof and by the applicable laws of the State of Washington.

Section 9.6. Time of the Essence.

Time shall be of the essence in the performance of obligations from time to time imposed upon the Escrow Agent by this Agreement.

Section 9.7. Amendments.

This Agreement shall not be amended except to cure any ambiguity or formal defect or omission in this Agreement. No amendment shall be effective unless the same shall be in writing and signed by the parties thereto. No such amendment shall adversely affect the rights of the holders of the Refunded Bonds. No such amendment shall be made without first receiving written confirmation from the rating agencies, (if any) which have rated the Refunded Bonds that such administrative changes will not result in a withdrawal or reduction of its rating then assigned to the Refunded Bonds. If this Agreement is amended, prior written notice and copies of the proposed changes shall be given to the rating agencies which have rated the Refunded Bonds.

EXECUTED as of the date first written above.

**CITY OF VANCOUVER,
WASHINGTON**

Treasurer

**U.S. BANK NATIONAL
ASSOCIATION, SEATTLE,
WASHINGTON**

as Authorized Signer

Exhibit A	—	Addresses of the City and the Escrow Agent
Exhibit B	—	Description of the Refunded Bonds
Exhibit C	—	Schedule of Debt Service on Refunded Bonds
Exhibit D	—	Description of Beginning Cash Deposit (if any) and Escrowed Securities
Exhibit E	—	Escrow Fund Cash Flow
Appendix A-1	—	Notice of Redemption for the 1999 Bonds
Appendix A-2	—	Notice of Defeasance for the 1999 Bonds
Appendix B	—	Fee Schedule

EXHIBIT A
Addresses of the City and Escrow Agent

City: City of Vancouver
610 Esther Street
P.O. Box 1995
Vancouver, WA 98668-1995
Attention: Treasurer

Escrow Agent: U.S. Bank National Association
555 S.W. Oak Street, PL6
Portland, OR 97204
Attention: Linda McConkey

EXHIBIT B

Description of the Refunded Bonds

City of Vancouver, Washington Water and Sewer Revenue Bonds, Series 1999

Maturity Years (June 1)	Principal Amounts	Interest Rates
2010	\$ 1,335,000	5.50%
2011	1,405,000	5.75
2012	1,500,000	5.75
2013	720,000	5.60
2014	2,530,000	6.00
2015	2,695,000	6.00
2020	14,940,000	6.00

EXHIBIT C
Schedule of Debt Service on the Refunded Bonds

Date	Interest	Principal/ Redemption Price	Total
06/01/2004	\$ 745,341.25	--	\$ 745,341.25
12/01/2004	745,341.25	--	745,341.25
06/01/2005	745,341.25	--	745,341.25
12/01/2005	745,341.25	--	745,341.25
06/01/2006	745,341.25	--	745,341.25
12/01/2006	745,341.25	--	745,341.25
06/01/2007	745,341.25	--	745,341.25
12/01/2007	745,341.25	--	745,341.25
06/01/2008	745,341.25	--	745,341.25
12/01/2008	745,341.25	--	745,341.25
06/01/2009	745,341.25	\$25,125,000.00	25,870,341.25
	<u>\$ 8,198,753.75</u>	<u>\$25,125,000.00</u>	<u>\$33,323,753.75</u>

EXHIBIT D
Escrow Deposit

I. Cash \$101.18

II. Other Obligations

Description	Maturity Date	Principal Amount	Interest Rate	Total Cost
SLG-Cert.	06/01/2004	\$ 139,318	0.89%	\$ 139,318.00
SLG-Cert.	12/01/2004	300,342	1.07	300,342.00
SLG-Note	06/01/2005	302,791	1.36	302,791.00
SLG-Note	12/01/2005	304,851	1.68	304,851.00
SLG-Note	06/01/2006	307,411	1.95	307,411.00
SLG-Note	12/01/2006	310,408	2.21	310,408.00
SLG-Note	06/01/2007	313,838	2.46	313,838.00
SLG-Note	12/01/2007	317,699	2.69	317,699.00
SLG-Note	06/01/2008	321,971	2.90	321,971.00
SLG-Note	12/01/2008	326,640	3.08	326,640.00
SLG-Note	06/01/2009	<u>25,456,670</u>	3.25	<u>25,456,670.00</u>
		<u>\$ 28,401,939</u>		<u>\$ 28,401,939.00</u>

Money from Debt Service Fund

Description	Maturity Date	Principal Amount	Interest Rate	Total Cost
SLG-Cert.	06/01/2004	\$ <u>372,670</u>	0.89%	\$ <u>372,670.00</u>
		<u>\$ 372,670</u>		<u>\$ 372,670.00</u>

III. Costs of Issuance

Escrow Verification Fee (Causey, Demgen and Moore)	\$ 2,800.00
Bond Counsel Fee (Preston Gates & Ellis)	\$ 40,000.00
Escrow Agent Fee (U.S. Bank National Association)	\$ 3,000.00
Moody's Rating Fee	\$ 10,250.00
S&P's Rating Fee	\$ 16,000.00
Printing of POS/OS (Reischling Press Inc.)	\$ 1,000.00
Posting of POS/OS (I-Deal)	\$ 1,000.00
Underwriter's Counsel Fee (Gottlieb, Fisher & Andrews) ..	\$ <u>15,000.00</u>
TOTAL	\$ <u>89,050.00</u>

EXHIBIT E
Escrow Fund Cash Flow

Date	Escrow Requirement	Net Escrow Receipts	Excess Receipts	Cash Balance
02/26/2004	\$ --	\$ 101.18	\$ 101.18	\$ 101.18
06/01/2004	745,341.25	745,340.51	(0.74)	100.44
12/01/2004	745,341.25	745,341.65	0.40	100.84
06/01/2005	745,341.25	745,340.91	(0.34)	100.50
12/01/2005	745,341.25	745,341.94	0.69	101.19
06/01/2006	745,341.25	745,341.20	(0.05)	101.14
12/01/2006	745,341.25	745,340.95	(0.30)	100.84
06/01/2007	745,341.25	745,340.95	(0.30)	100.54
12/01/2007	745,341.25	745,341.75	0.50	101.04
06/01/2008	745,341.25	745,340.70	(0.55)	100.49
12/01/2008	745,341.25	745,341.13	(0.12)	100.37
06/01/2009	<u>25,870,341.25</u>	<u>25,870,340.88</u>	<u>(0.37)</u>	100.00
	\$ 33,323,753.75	\$ 33,323,853.75	\$ 100.00	

APPENDIX A-1

NOTICE OF REDEMPTION*

City of Vancouver, Washington Water and Sewer Revenue Bonds, Series 1999

NOTICE IS HEREBY GIVEN that the City of Vancouver, Washington has called for redemption on June 1, 2009, its outstanding Water and Sewer Revenue Bonds, Series 1999 (the "Bonds").

The Bonds will be redeemed at a price of one hundred percent (100%) of their principal amount, plus interest accrued to June 1, 2009. The redemption price of the Bonds is payable on presentation and surrender of the Bonds at the office of:

The Bank of New York
Fiscal Agency Department
Ground Floor
101 Barclay Street
7 East
New York, NY 10286

-or-

Wells Fargo Bank National
Association
Corporate Trust Department
14th Floor - M/S 257
999 Third Avenue
Seattle, WA 98104

Interest on all Bonds or portions thereof which are redeemed shall cease to accrue on June 1, 2009.

The following Bonds are being redeemed:

Maturity Years (June 1)	Principal Amounts	Interest Rates	CUSIP Nos.
2010	\$ 1,335,000	5.50%	921645NQ6
2011	1,405,000	5.75	921645NR4
2012	1,500,000	5.75	921645NS2
2013	720,000	5.60	921645NT0
2014	2,530,000	6.00	921645NU7
2015	2,695,000	6.00	921645NV5
2020	14,940,000	6.00	921645PA9

By Order of the City of Vancouver, Washington

The Bank of New York, as Paying Agent

* This notice shall be given not more than 60 nor less than 30 days prior to June 1, 2009 by first class mail to each registered owner of the Refunded Bonds. In addition notice shall be mailed at least 35 days prior to June 1, 2009 to The Depository Trust Company, New York, New York; The Depository Trust Company of New York, New York; Piper Jaffray & Co., Seattle, Washington; Moody's Investors Service and Standard & Poor's.

Dated: _____.

Under the Interest and Dividend Tax Compliance Act of 1983, payor may be required to withhold 30% of the redemption price from any Bondowner who fails to provide to payor and certify under penalties of perjury, a correct taxpayer identifying number (employer identification number or social security number, as appropriate) or an exemption certificate on or before the date the Bonds are presented for payment. Bondowners who wish to avoid the application of these provisions should submit a completed Form W-9 when presenting their Bonds.

APPENDIX A-2*

NOTICE OF DEFEASANCE

City of Vancouver, Washington Water and Sewer Revenue Bonds, Series 1999

NOTICE IS HEREBY GIVEN to the owners of that portion of the above captioned bonds with respect to which, pursuant to an Escrow Agreement dated February 26, 2004, by and between City of Vancouver, Washington (the "City") and U.S. Bank National Association, Portland, Oregon (the "Escrow Agent"), the City has deposited into an escrow account, held by the Escrow Agent, cash and obligations of the United States of America, the principal of and interest on which, when due, will provide money to pay each year, to and including the respective maturity or redemption dates of such bonds so provided for, the principal thereof and interest thereon (the "Defeased Bonds"). Such Defeased Bonds are therefore deemed to be no longer outstanding pursuant to Ordinance No. M-3463 of the City authorizing the Defeased Bonds, but will be paid by application of the assets in such escrow.

The Defeased Bonds are described as follows:

City of Vancouver, Washington Water and Sewer Revenue Bonds, Series 1999.

(Dated November 1, 1999)

Maturity Years (June 1)	Principal Amounts	Interest Rates	Call Date (100%)
2010	\$ 1,335,000	5.50%	06/01/2009
2011	1,405,000	5.75	06/01/2009
2012	1,500,000	5.75	06/01/2009
2013	720,000	5.60	06/01/2009
2014	2,530,000	6.00	06/01/2009
2015	2,695,000	6.00	06/01/2009
2020	14,940,000	6.00	06/01/2009

* This notice shall be given immediately by first class mail to each registered owner of the Defeased Bonds. In addition notice shall be mailed to The Depository Trust Company of New York, New York; The Bank of New York, as Fiscal Agent; Moody's Investors Service, New York, New York; and Standard & Poor's Ratings Services, a Division of the McGraw-Hill Companies, Inc., New York, New York, to the MSRB and to the NRMSIRs.

APPENDIX B
Fee Schedule

Escrow Agent Fee: \$3,000.00

EXHIBIT B

INSURER'S COMMITMENT OF BOND INSURANCE – RESERVE FUND SURETY GUIDELINES

The Issuer may satisfy the requirement (the "Reserve Fund Requirement") to deposit a specified amount in the debt service reserve fund as defined in the Bond Ordinance (the "Reserve Fund") by the deposit of a surety bond, insurance policy or letter of credit as set forth below. The following requirements shall be incorporated in the authorizing document for the Bonds (the "Authorizing Document") in the event the Reserve Fund Requirement is fulfilled by a deposit of a credit instrument (other than a credit instrument issued by Financial Guaranty) in lieu of cash:

1. A surety bond or insurance policy issued to the entity serving as trustee or paying agent (the "Fiduciary"), as agent of the bondholders, by a company licensed to issue an insurance policy guaranteeing the timely payment of debt service on the Bonds (a "municipal bond insurer") may be deposited in the Reserve Fund to meet the Reserve Fund Requirement if the claims paying ability of the issuer thereof shall be rated "AAA" or "Aaa" by S&P or Moody's, respectively.
2. A surety bond or insurance policy issued to the Fiduciary, as agent of the bondholders, by an entity other than a municipal bond insurer may be deposited in the Reserve Fund to meet the Reserve Fund Requirement if the form and substance of such instrument and the issuer thereof shall be approved by Financial Guaranty.
3. An unconditional irrevocable letter of credit issued to the Fiduciary, as agent of the bondholders, by a bank may be deposited in the Reserve Fund to meet the Reserve Fund Requirement if the issuer thereof is rated at least "AA" by S&P. The letter of credit shall be payable in one or more draws upon presentation by the beneficiary of a sight draft accompanied by its certificate that it then holds insufficient funds to make a required payment of principal or interest on the bonds. The draws shall be payable within two days of presentation of the sight draft. The letter of credit shall be for a term of not less than three years. The issuer of the letter of credit shall be required to notify the Issuer and the Fiduciary, not later than 30 months prior to the stated expiration date of the letter of credit, as to whether such expiration date shall be extended, and if so, shall indicate the new expiration date.
4. If such notice indicates that the expiration date shall not be extended, the Issuer shall deposit in the Reserve Fund an amount sufficient to cause the cash or permitted investments on deposit in the Reserve Fund together with any other qualifying credit instruments, to equal the Reserve Fund Requirement on all outstanding Bonds, such deposit to be paid in equal installments on at least a semi-annual basis over the remaining term of the letter of credit, unless the Reserve Fund credit instrument is replaced by a Reserve Fund credit instrument meeting the requirements in any of 1-3 above. The letter of credit shall permit a draw in full not less than two weeks prior to the expiration or termination of such letter of credit if the letter of credit has not been replaced or renewed. The Authorizing Document shall, in turn, direct the Fiduciary to draw upon the letter of credit prior to its expiration or termination unless an acceptable replacement is in place or the Reserve Fund is fully funded in its required amount.
5. The use of any Reserve Fund credit instrument pursuant to this Paragraph shall be subject to receipt of an opinion of counsel acceptable to Financial Guaranty and in form and substance satisfactory to Financial Guaranty as to the due authorization, execution, delivery and enforceability of such instrument in accordance with its terms, subject to applicable laws affecting creditors' rights generally, and, in the event the issuer of such credit instrument is not a domestic entity, an opinion of foreign counsel in form and substance satisfactory to Financial Guaranty. In addition, the use of an irrevocable letter of credit shall be subject to receipt of an opinion of counsel acceptable to Financial Guaranty and in form and substance satisfactory to

Financial Guaranty to the effect that payments under such letter of credit would not constitute avoidable preferences under Section 547 of the U.S. Bankruptcy Code or similar state laws with avoidable preference provisions in the event of the filing of a petition for relief under the U.S. Bankruptcy Code or similar state laws by or against the issuer of the bonds (or any other account party under the letter of credit).

6. The obligation to reimburse the issuer of a Reserve Fund credit instrument for any fees, expenses, claims or draws upon such Reserve Fund credit instrument shall be subordinate to the payment of debt service on the bonds. The right of the issuer of a Reserve Fund credit instrument to payment or reimbursement of its fees and expenses shall be subordinated to cash replenishment of the Reserve Fund, and, subject to the second succeeding sentence, its right to reimbursement for claims or draws shall be on a parity with the cash replenishment of the Reserve Fund. The Reserve Fund credit instrument shall provide for a revolving feature under which the amount available thereunder will be reinstated to the extent of any reimbursement of draws or claims paid. If the revolving feature is suspended or terminated for any reason, the right of the issuer of the Reserve Fund credit instrument to reimbursement will be further subordinated to cash replenishment of the Reserve Fund to an amount equal to the difference between the full original amount available under the Reserve Fund credit instrument and the amount then available for further draws or claims. If (a) the issuer of a Reserve Fund credit instrument becomes insolvent or (b) the issuer of a Reserve Fund credit instrument defaults in its payment obligations thereunder or (c) the claims-paying ability of the issuer of the insurance policy or surety bond falls below a S&P "AAA" or a Moody's "Aaa" or (d) the rating of the issuer of the letter of credit falls below a S&P "AA", the obligation to reimburse the issuer of the Reserve Fund credit instrument shall be subordinate to the cash replenishment of the Reserve Fund.
7. If (a) the revolving reinstatement feature described in the preceding paragraph is suspended or terminated or (b) the rating of the claims paying ability of the issuer of the surety bond or insurance policy falls below a S&P "AAA" or a Moody's "Aaa" or (c) the rating of the issuer of the letter of credit falls below a S&P "AA", the Issuer shall either (i) deposit into the Reserve Fund an amount sufficient to cause the cash or permitted investments on deposit in the Reserve Fund to equal the Reserve Fund Requirement on all outstanding Bonds, such amount to be paid over the ensuing five years in equal installments deposited at least semi-annually or (ii) replace such instrument with a surety bond, insurance policy or letter of credit meeting the requirements in any of 1-3 above within six months of such occurrence. In the event (a) the rating of the claims-paying ability of the issuer of the surety bond or insurance policy falls below "A" or (b) the rating of the issuer of the letter of credit falls below "A" or (c) the issuer of the Reserve Fund credit instrument defaults in its payment obligations or (d) the issuer of the Reserve Fund credit instrument becomes insolvent, the Issuer shall either (i) deposit into the Reserve Fund an amount sufficient to cause the cash or permitted investments on deposit in the Reserve Fund to equal to Reserve Fund Requirement on all outstanding Bonds, such amount to be paid over the ensuing year in equal installments on at least a monthly basis or (ii) replace such instrument with a surety bond, insurance policy or letter of credit meeting the requirements in any of 1-3 above within six months of such occurrence.
8. Where applicable, the amount available for draws or claims under the Reserve Fund credit instrument may be reduced by the amount of cash or permitted investments deposited in the Reserve Fund pursuant to clause (i) of the preceding subparagraph 6.
9. If the Issuer chooses the above described alternatives to a cash-funded Reserve Fund, any amounts owed by the Issuer to the issuer of such credit instrument as a result of a draw thereon or a claim thereunder, as appropriate, shall be included in any calculation of debt service requirements required to be made pursuant to the Authorizing Document for any purpose, e.g., rate covenant or additional bonds test.

10. The Authorizing Document shall require the Fiduciary to ascertain the necessity for a claim or draw upon the Reserve Fund credit instrument and to provide notice to the issuer of the Reserve Fund credit instrument in accordance with its terms not later than three days (or such longer period as may be necessary depending on the permitted time period for honoring a draw under the Reserve Fund credit instrument) prior to each interest payment date.
11. Cash on deposit in the Reserve Fund shall be used (or investments purchased with such cash shall be liquidated and the proceeds applied as required) prior to any drawing on any Reserve Fund credit instrument. If and to the extent that more than one Reserve Fund credit instrument is deposited in the Reserve Fund, drawings thereunder and repayments of costs associated therewith shall be made on a pro rata basis, calculated by reference to the maximum amounts available thereunder.

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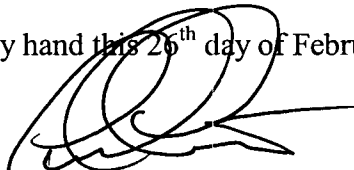
CERTIFICATE

I, the undersigned, City Clerk of the City Council, of the City of Vancouver, Washington (the "City") and keeper of the records of the City Council (the "City Council"), DO HEREBY CERTIFY:

1. That the attached Ordinance is a true and correct copy of Ordinance No. M-3644 of the City Council (the "Ordinance"), duly passed at a regular meeting thereof held on the 2nd day of February, 2004.

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

IN WITNESS WHEREOF, I have hereunto set my hand this 26th day of February, 2004.



Paul Lewis, City Clerk

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CERTIFICATE

I, PAUL LEWIS, the duly appointed, qualified and acting City Clerk of the City of Vancouver, Washington, DO HEREBY CERTIFY that the attached is a full, true and correct copy of the excerpts from the minutes of the meeting of the City Council held on January 26, 2004 which reflect the first reading of Ordinance No. M-3644.

DATED as of this 26th day of February, 2004.

CITY OF VANCOUVER, WASHINGTON

By 

Paul Lewis, City Clerk

MINUTES – REGULAR COUNCIL MEETING

MONDAY, JANUARY 26, 2004

WORKSHOPS (City Council Chambers)

Full Council met with Laura Hudson, Long Range Planning Manager and Bryan Snodgrass, Principal Planner, Long Range Planning, and John Manley, Planner, Long Range Planning.

4:00-5:30 P.M. PROPOSED COMPREHENSIVE PLAN REVISIONS

Summary:

The Comprehensive Plan provides an overall blueprint for land use development, environmental protection, and service provision in Vancouver for the next 20 years. It contains written policy statements, maps, and background information addressing local conditions and concerns, but meeting state Growth Management Act (GMA) requirements. Development standards are required to follow the direction set by the Comprehensive Plan. The recent code update is consistent with the draft Vancouver Comprehensive Plan 2003 – 2023. Staff reviewed proposed Comprehensive Plan changes. (Laura Hudson, Long Range Planning Manager, 619-4103)

Mayor Pollard recessed the workshop at 4:40 p.m. and reconvened at 5:00 p.m.

5:30-6:15 P.M. EXECUTIVE SESSION RE: PROPERTY ACQUISITION

REGULAR COUNCIL MEETING (City Council Chambers)

PLEDGE OF ALLEGIANCE

CALL TO ORDER AND ROLL CALL

The Regular Agenda meeting of the Vancouver City Council was called to order at 7:00 p.m. by Mayor Royce E. Pollard in the Council Chambers of City Hall, 210 East 13th Street, Vancouver, Washington.

PRESENT: Councilmembers Smith, Leavitt, Stewart, Harris, Tonkovich, Jollota, and Mayor Pollard

ABSENT: None

APPROVAL OF MINUTES FOR JANUARY 5, 2004

MOTION MADE BY COUNCILMEMBER LEAVITT, SECONDED BY COUNCILMEMBER TONKOVICH AND CARRIED UNANIMOUSLY TO APPROVE THE MINUTES FOR JANUARY 5, 2004.

APPROVAL OF MINUTES FOR JANUARY 12, 2004

MOTION MADE BY COUNCILMEMBER LEAVITT, SECONDED BY COUNCILMEMBER HARRIS AND CARRIED UNANIMOUSLY TO APPROVE THE MINUTES FOR JANUARY 12, 2004.

PROCLAMATION

- Mayor Pollard read and presented a proclamation to Jess Frost, Chair, Chkalov Memorial Committee, declaring February 1-7, 2004 as “Valery P. Chkalov Memorial Week.”

CITIZEN COMMUNICATIONS

Mayor Pollard opened Citizen Communications and received the following testimony:

- Command Sergeant Major William Lee, 396th Combat Support Hospital, Vancouver Barracks, 2813 NE 152nd Avenue, Vancouver, shared information on the 397th Combat Support Hospital 915th Division out of Vancouver Barracks whose members had received the Purple Heart for injuries sustained in Iraq.
- Ted Pyle, 4416 Fruit Valley Road, Vancouver, stated he felt domestic violence laws and parent/child laws were too strict and cited several examples of what he believed to an overzealous court system.
- Joann Schisler, 404 SE 101st Avenue, Vancouver, addressed the Hague Convention and concerns about children who are abducted and removed from the country. She discussed her efforts with various government agencies and said she wanted to make the public aware of this problem.

- Ed Lynch, 4712 Franklin Street, Vancouver, represented Identity Clark County in commending Council for its accomplishments and joint public/private endeavors, and encouraged them to continue their efforts to make Vancouver a destination point and a place that supports quality of life projects in the community.

Hearing no further testimony, Mayor Pollard closed Citizen Communications and returned to the Consent Agenda for action.

CONSENT AGENDA

It was requested that Item 1 be considered separately.

MOTION MADE BY COUNCILMEMBER JOLLOTA, SECONDED BY COUNCILMEMBER TONKOVICH AND CARRIED UNANIMOUSLY TO APPROVE CONSENT ITEMS 2, 3, 4, 5, 6, AND 7.

**1. MAINTENANCE AGREEMENT WITH KEY PROPERTY SERVICES, INC. (KPS)
FOR MAINTENANCE, JANITORIAL AND SECURITY SERVICES; PARKING
MANAGEMENT SERVICES; AND LEASING SERVICES FOR THE PARK'N GO
VANCOUVERCENTER GARAGE**

(Staff Report 004-04)

Summary:

In June of 1999, the City, working through the Downtown Redevelopment Authority, entered into a Development and Disposition Agreement (DDA) for redevelopment of the brewery super block in downtown Vancouver. The project now known as Vancouvercenter is a mixed-use urban development with a parking structure, market rate apartments, retail space, commercial office space, a public plaza and market rate condominiums. Under the direction of the DDA, the City will purchase, own and operate the garage and a public elevator. The City is also responsible for the general maintenance, cleanliness, and appearance of the garage. The developer of the Vancouvercenter project has already independently hired KPS, Inc. as the on-site building manager.

It is proposed to have the City contract with KPS for a five-year contract for an estimated cost of \$24,000 per year in addition to the actual garage operating costs. This contract will not be subject to the City's usual competitive procedures because there is a demonstrated need to have the same contractor working in all areas of the towers and Garage, and a bidding process could produce a situation of having two separate contractors working in Vancouvercenter and performing the same duties. As part of the

security and maintenance plan, maintenance personnel will be on-site 24 hours a day, seven days a week, needing frequent access to secure areas of the towers and parking garage. These employees will also be involved in issuing access cards to residents of the towers, responding to building problems that may arise, and ensuring proper functioning of HVAC and other building systems. It would not be feasible and could pose a potential breach of security to have two separate maintenance contractors working within the same building at the same time.

In response to questions by Councilmember Smith, Michael Jacobs, Parking Manager, explained why the contract was written for a five-year period, with the option for two additional five-year renewals. He also stated that there was a 90 day escape clause included in the document.

In response to questions by Councilmember Stewart, Mr. Jacobs clarified the scope of work as it related to City ownership of added parking spaces.

In response to questions by Councilmember Leavitt, Mr. Jacobs explained the monthly administrative fee for 24-hour security.

City Attorney Gathe stated that paying prevailing wage was now typical for this type of agreement.

MOTION MADE BY COUNCILMEMBER HARRIS, SECONDED BY COUNCILMEMBER JOLLOTA AND CARRIED UNANIMOUSLY TO AUTHORIZE THE CITY MANAGER OR HIS DESIGNEE TO SIGN A FIVE-YEAR CONTRACT WITH KPS, INC. TO PROVIDE MAINTENANCE, JANITORIAL AND SECURITY SERVICES; PARKING MANAGEMENT SERVICES; AND LEASING SERVICES FOR THE PARK 'N GO™ VANCOUVERCENTER GARAGE AT A COST OF \$24,000 PER YEAR IN ADDITION TO THE ACTUAL GARAGE OPERATING COSTS. (MICHAEL JACOBS, PARKING MANAGER, 735-8879)

2. ESTHER SHORT COMMONS – AMENDED AND RESTATED MASTER LEASE

(Staff Report 005-04)

Summary:

On July 28, 2003, the City approved a Master Lease. Subsequent to the approval, Vancouver Farmers Market (Market) withdrew from the project due to higher than anticipated capital costs. Following their withdrawal, Al Angelo, Jr. offered a substantial donation and other assistance that enabled the Market to reconsider its withdrawal and resume negotiations on the Lease documents. The final Sublease was signed by the

Vancouver Farmer's Market on December 3, 2003. Some of the changes incorporated during the negotiations of the final Sublease necessitated further modifications to the Master Lease in order to conform to the Sublease. These modifications include:

- 1. Establish a ceiling on pass through condo expenses of \$500 per month with a 2.75% escalator.*
- 2. Clarify that utilities used by tenants and subtenants, etc. are the responsibility of the Tenant.*
- 3. Limit the ability of the Landlord to terminate after hours activities giving rise to a disturbance to the specific activity giving rise to the disturbance.*
- 4. Clarify that the Tenant will not perform or allow to be performed any act, etc. that would be nuisance.*
- 5. Provide a mediation provision for disputes relating to termination of activities by Landlord for nuisance grounds.*
- 6. Clarify Tenant's responsibility for maintenance of their space to include premises storefront, premises HVAC, and expenses caused by negligence of Tenant (or employees, agents, invitees, etc.), but not defects in the original design of the space.*
- 7. Clarify that the Landlord must send billings for any work Landlord performs on behalf of Tenant in the Common Areas (e.g. sidewalks) to the Tenant and the Tenant must pay within 30 days of such billing.*
- 8. Clarify that the Tenant is responsible for insuring its personal property on the premises.*
- 9. Modify the subletting provision to require the Landlord's consent, which shall not be unreasonably withheld (taking into account a sharing provision of 25% of the excess rent from the Market's sub-lessees).*
- 10. Require the Tenant to pay for uninsured damages or Landlord's deductible charge if the damage was caused by the Tenant.*
- 11. Clarify that 90 days after termination of the lease the Tenant will not be responsible for loss of revenue damages to Landlord.*

There are still minor language modifications that may be necessary for the document to be completely acceptable to all parties. However, these minor changes will not affect the business terms of the agreement.

MOTION APPROVED AS TO FORM THE AMENDED AND RESTATED MASTER LEASE AND AUTHORIZED THE CITY MANAGER OR HIS DESIGNEE TO SIGN THE AMENDED AND RESTATED MASTER LEASE FOR ESTHER SHORT COMMONS. (STEVE BURDICK, DIRECTOR OF ECONOMIC DEVELOPMENT, 735-8872)

3. ESTHER SHORT COMMONS – REPLACEMENT SUBLEASE WITH VANCOUVER FARMERS MARKET
(Staff Report 006-04)

Summary:

On July 28, 2003, the City approved a Sublease with the Market. Subsequent to Council's approval and without executing the Sublease approved by City Council, Vancouver Farmers Market (Market) withdrew from the project due to higher than anticipated capital costs. Following their withdrawal, Al Angelo, Jr. offered a substantial donation and other assistance that enabled the Market to reconsider its withdrawal and resume negotiations on the Lease documents resulted in modifications to the unexecuted Sublease. These modifications include:

- 1. Establish a ceiling on pass through condo expenses of \$500 per month with a 2.75% escalator.*
- 2. Clarify that utilities used by tenants and subtenants, etc. are the responsibility of the Tenant.*
- 3. Limit the ability of the Landlord to terminate after hours activities giving rise to a disturbance to the specific activity giving rise to the disturbance.*
- 4. Clarify that the Tenant will not perform or allow to be performed any act, etc. that would be a nuisance.*
- 5. Provide a mediation provision for disputes relating to termination of activities by Landlord for nuisance grounds.*
- 6. Clarify Tenant's responsibility for maintenance of their space; to include premises storefront, premises HVAC, and expenses caused by negligence of Tenant (or employees, agents, invitees, etc.), but not defects in the original design of the space.*
- 7. Clarify that the Landlord must send billings for any work Landlord performs on behalf of Tenant in the Common Areas (e.g. sidewalks) to the Tenant and the Tenant must pay within 30 days of such billing.*
- 8. Clarify that the Tenant is responsible for insuring its personal property on the premises.*
- 9. Modify the subletting provision to require the Landlord's consent, which shall not be unreasonably withheld (taking into account a sharing provision of 25% of the excess rent from the Market's sub-lessees).*
- 10. Require the Tenant to pay for uninsured damages or Landlord's deductible charge if the damage was caused by the Tenant.*
- 11. Clarify that 90 days after termination of the lease the Tenant will not be responsible for loss of revenue damages to Landlord.*

MOTION AUTHORIZED THE CITY MANAGER OR HIS DESIGNEE TO SIGN THE REVISED SUBLEASE WITH VANCOUVER FARMERS MARKET. (STEVE BURDICK, DIRECTOR OF ECONOMIC DEVELOPMENT, 735-8872)

4. YEAR 2004 WATER AND SEWER REVENUE REFUNDING BONDS
(Staff Report 007-04)

Mayor Pollard read the title of the ordinance into the record.

AN ORDINANCE of the City of Vancouver, Washington, authorizing the issuance of water and sewer revenue refunding bonds of the City in the principal amount of not to exceed \$29,000,000 to provide funds for refunding certain outstanding water and sewer revenue bonds of the City and to pay costs of issuance, establishing certain covenants, reserving the right to issue revenue bonds on a parity with the bonds herein authorized upon compliance with certain conditions, authorizing the appointment of an escrow agent and the execution of an escrow agreement related to such refunding, providing the form and terms of said bonds, authorizing a preliminary official statement, providing for the disposition of the proceeds of sale, approving an agreement for ongoing disclosure, delegating authority to approve the final terms of said bonds, and repealing ordinance no. M-3625.

Summary:

Piper Jaffray has presented City staff with a proposal to partially refund the 1999 water and sewer revenue bonds, which will save on a present value basis at least \$900,000 over the seventeen year life of the bonds. The 1999 bond issue was part of the refunding proposal presented to Council in December 2002, and again in July 2003. However, interest rates increased during both time periods, causing the 1999 issue to not meet the minimum savings target of 3%. As a result, only part of the 1993 revenue bond issue was refunded by the 2002 revenue refunding bond issue. In January 2004, interest rates declined to levels making the 1999 issue a viable candidate for refunding. City staff, bond counsel, and Piper Jaffray have updated the documents needed for this transaction. Staff requests Council authorization to issue up to \$29,000,000 in revenue refunding bonds, and to delegate authority to the City Manager to sign a bond purchase contract with Piper Jaffray. The bonds will only be refunded if at least a 3% present value savings target is realized. The delegation period would be up to 90 days after approval of the bond ordinance.

MOTION APPROVED ORDINANCE ON FIRST READING, SETTING DATE OF SECOND READING AND PUBLIC HEARING FOR FEBRUARY 2, 2004, AND AUTHORIZE THE CITY MANAGER TO SIGN A BOND PURCHASE CONTRACT. (CARRIE LEWELLEN, CITY TREASURER, 619-1082)

5. OVERLEGAL TRUCK LOADS AND STRUCTURE MOVES

(Staff Report 008-04)

Mayor Pollard read the title of the ordinance into the record.

AN ORDINANCE relating to management of the city rights of way and to regulation of vehicle size and load limits; repealing Ordinance 417, codified as Chapter 11.52 VMC; adding a new Chapter 9.05 (Overlegal Truck Loads, Structure Moves) to Title 9 (Traffic) of the Vancouver Municipal Code; and providing for severability and an effective date.

Summary:

Since 2000, Clark County has, through an interlocal agreement with the City, administered the City's permit system for vehicles carrying overlegal loads, such as house moves. The City and County ordinances on this subject are currently not consistent. In particular, the City's ordinance on house moves dates from 1907, while standards relating to size and load limitations were incorporated by reference into the VMC when the City adopted the Washington Model Traffic Ordinance in 1996, other provisions such as insurance and bonding need updating. In addition, the County ordinance and permitting system accommodate annual and thirty day permits on overlegal loads. County annual permits are generally issued for routine moves that involve little physical disturbance to the right-of-way surface, whereas monthly or single trip permits are issued where there is greater disruption of pedestrian and vehicular traffic and temporary loss of access to property. The City's ordinance does not contain express provisions for annual and monthly permits.

It is proposed to adopt a new Chapter in Title 9 (Traffic) consistent with that of the County to provide for issuance of annual and thirty day permits for overlegal loads and to incorporate updated bonding and insurance standards. The proposed ordinance would provide for annual permits only in the area of the City east of I-5, which generally has wider and less congested streets. The area west of I-5, with its narrower and more congested streets, would be handled under the monthly/single-use permit tier, except for major west side transportation corridors such as Fourth Plain and Mill Plain.

MOTION APPROVED ORDINANCE ON FIRST READING, SETTING DATE OF SECOND READING AND PUBLIC HEARING FOR FEBRUARY 2, 2004. (JUDY ZEIDER, CHIEF ASSISTANT CITY ATTORNEY, 696-8251, X8828)

6. RELEASE OF 1985 STONEMILL BUSINESS PARK REZONE COVENANTS
CURRENTLY APPLYING TO THE 10-ACRE SITE OF THE FUTURE FIRSTENBURG
COMMUNITY CENTER AT 700 NE 136TH AVENUE; AND APPROXIMATELY 58
ACRES OF ADDITIONAL PROPERTIES ALONG 136TH AVENUE BETWEEN MILL
PLAIN BOULEVARD SOUTH OF 9TH STREET IN THE FIRCREST AND AIRPORT
GREEN NEIGHBORHOODS. PRJ2003-00509/CPZ2003-
000124/SEP2003-00065 (FIRSTENBURG SITE) AND PRJ2003-
01898/CPZ2003-00016/SEP2003-00065 (REMAINING 136TH AVENUE
PROPERTIES)

(Staff Report 009-04)

Mayor Pollard read the title of the ordinance into the record.

(A) AN ORDINANCE relating to land use and zoning; releasing a 1985 rezone agreement covenant applied to a 10-acre site, parcel Number 165180-000 located at 700 NE 136th Avenue; providing for severability; providing for an effective date.

Mayor Pollard read the title of the ordinance into the record.

(B) AN ORDINANCE relating to land use and zoning; releasing a 1985 rezone agreement covenant applied to approximately 58 acres of 136th Avenue properties between Mill Plain Boulevard south of 9th Street, parcel numbers are 164738-000 165165, 165174, 165174-005, 165174-010, 165174-015, 165174-020, 165174-025, 165174-030, 165175-000, 165175-005; providing for severability; providing for an effective date.

Summary:

The Stonemill covenants were established by Clark County along 136th Avenue as part of a 1985 rezone agreement at a time when the area was largely undeveloped and many existing land use regulations were not in place. The covenant agreement established transportation standards and extensive landscaping, parking, use, access, and building design requirements, with the stated intent of providing "quality, contemporary site, architectural landscape design." The covenants also require construction of an eight-foot wall abutting the Pinebrook Homeowners Association and lists the association as an intended beneficiary of the covenants. This wall has since been built. It is located at the rear of the Firstenburg site.

Since 1985, there has been extensive development in the area which has annexed to the City of Vancouver. Remaining undeveloped properties currently subject to the covenant

have all submitted and received site plan approval in the past three years. The existence of the covenants was not uncovered in the recent land use applications, approvals, or purchases. There have also been additional development agreements between Vancouver and the property owner, Dale Haagen, for addressing transportation and use issues. The City of Vancouver purchased the Firstenburg Community Center site in 2002.

On January 12, 2004, staff met with Fircrest Neighborhood residents at the Pinebrook Homeowners Clubhouse to discuss the proposal. On January 13, the Vancouver Planning Commission voted 8-1 in favor of removing the rezone covenants at the Firstenburg site, and 5-4 in favor of removing the covenants on the remaining 136th Avenue properties. Commission members voting against removal expressed concern about doing so without written consent of the Pinebrook Homeowners Association, as well as concerns that the recent site plan applications and approvals did not consider the covenants.

MOTION APPROVED ORDINANCES A AND B ON FIRST READING, SETTING DATE OF SECOND READING AND PUBLIC HEARING FOR FEBRUARY 2, 2004. (BRYAN SNODGRASS, PRINCIPAL PLANNER, LONG-RANGE PLANNING, 696-8005, X8195)

7. APPROVAL OF CLAIMS FOR JANUARY 26, 2004

MOTION APPROVED CLAIM VOUCHERS FOR JANUARY 26, 2004 IN THE AMOUNT OF \$4,264,339.54.

Public Hearings

8. AMENDMENTS TO VANCOUVER MUNICIPAL CODE CHAPTER 16.20 -- FIREWORKS

(Staff Report 002-04)

Mayor Pollard read the title of the ordinance into the record.

AN ORDINANCE relating to the regulation and use of fireworks, adding new sections to, repealing a section of, and amending sections of Ordinance M-666, codified at Chapter 16.20 VMC, as amended by Ordinance M-2307; amending sections of Ordinance M-3638 codified at Title 22 VMC; providing for severability and an effective date. (M-3642)

Summary:

The state legislature has amended the statutes governing the sale and use of fireworks. The Vancouver Municipal Code is not in compliance with the revised state statutes. Presently all applications for permits for fireworks-related activity must be approved by Council. The current limits on permit fees in the Vancouver Municipal Code do not cover the cost of services associated with issuing fireworks permits.

It is proposed to amend Vancouver Municipal Code Chapter 16.20 to bring it into compliance with current state regulations. To give the Fire Chief or the Fire Chief's designee the authority to issue permits for fireworks-related activities. To set fees that are adequate to recover costs associated with issuing fireworks permits. To continue the current prohibition against the unlicensed use of consumer fireworks outside of the Fourth of July and New Years seasons.

Staff comments were provided by Jim Crawford, Fire Marshal, per the staff report.

In response to questions by Councilmembers, Mr. Crawford explained the new fees would cover the cost of administering the program and that there had been no objections voiced to the increase. He also explained the application process, that one booth per 7,000 residents was allowed, and that permits were awarded to previous years' applicants first. He stated that there had been no objection to an increase in liability insurance from \$50,000 to \$500,000.

Mayor Pollard stressed that funds purchased from "official Fourth of July" fireworks stands went to support the annual Fourth of July event. He noted that there had been a proliferation of stands supporting other noteworthy charitable organizations, which had diminished funds returning to the Fourth of July Committee. The Mayor suggested staff explore ways in which the City could capture more of this important funding source for the Fourth activities.

Mayor Pollard opened and closed the public hearing with no testimony and returned the item to Council for action.

MOTION MADE BY COUNCILMEMBER JOLLOTA, SECONDED BY COUNCILMEMBER HARRIS AND CARRIED UNANIMOUSLY TO APPROVE THE ORDINANCE. (M-3642) (JOHN GENTRY, DEPUTY FIRE MARSHAL, 759-4405)

On December 15, 2003, City Council conducted and closed the public hearing on the updated Development Code (Item 9 below), and the related comprehensive plan-zoning map. Council continued its deliberations on Monday, January 5, 2004. Following

Council's deliberation additional changes were proposed to the Development Code and the zoning map. These changes have been incorporated in the final code version. This final version is now being considered for second reading and public hearing.

9. CITY OF VANCOUVER UPDATED DEVELOPMENT CODE AND ZONING MAP
(Supplemental Staff Report 183B-03)

Mayor Pollard read the title of the ordinance into the record.

AN ORDINANCE relating to Comprehensive Plan and Zoning for the City of Vancouver, Vancouver Municipal Code Title 20; repealing certain existing ordinances, amending others, and adopting new measures; repealing Title 18, Title 19; Title 20, and Title 21, readopting them in a new Title 20; amending VMC sections 22.01.030, 22.02.020, 22.02.040, and providing for an effective date. (M-3643)

Summary:

In May of 2000, Vancouver initiated a review of the City's land use development codes. The purpose was to evaluate and update the City's development codes in a comprehensive manner rather than making changes incrementally. Following a series of work sessions and public hearings, the Planning Commission recommended that City Council adopt the revised development code and related comprehensive plan-zoning map. (The Planning Commission recommendations and related documents remain on file for public review and are not part of this current submittal). After deliberating, Council modified the Planning Commission version and recommended additional changes.

The revised Development Code consolidates several Titles of the Vancouver Municipal Code (VMC) into a single unified code; it reorganizes Title 20 (Zoning) to improve accessibility and readability; it eliminates conflicting information; and it streamlines the permit processes and decision making procedures. If adopted, the City's existing Title 20 and other land use related VMC titles would be repealed and replaced with the updated development code and related land use maps.

Staff comments were provided by David Scott, Manager, Development Review Services; Chad Eiken, Supervisor, Development Review Services; and Jim McNamara, Assistant City Attorney, per the staff report.

Mr. Scott noted for the record correspondence received from:

- Roger L. Morley, 5500 Harney Street, Vancouver, dated January 21, 2004, related to the sign code portion of the proposed ordinance.

- Elie G. Kassab, Prestige Development, related to the sign code portion of the proposed ordinance.

Mayor Pollard opened the public hearing and received the following testimony:

- Roger L. Morley, 5500 Harney Street, Vancouver, addressed the sign code portion of the ordinance and expressed concern about placement of A-frame signs and obstruction of pedestrians, especially those with handicaps. Mr. Morley provided four photographs of areas where sidewalks appeared to be illegally obstructed.
- Jesse Magana, 1619 NE 129th Avenue, Vancouver, spoke as a disabled citizen in opposition to the proposed sign portion of the ordinance. He also felt there should be language related to sign quality as well as appropriate placement.
- Dr. Dean Hummels, 1129 NW 29th Avenue, Camas, represented Disability Resources of Southwest Washington, in opposition to the proposed sign portion of the ordinance, noting there could be issues related to liability for the City and/or businesses placing signs that might impede individuals with disabilities.
- Jessica Hoffman, PO Box 1010, Vancouver, represented the Clark County Association of Realtors in support of the proposed sign portion of the ordinance. Ms. Hoffman also discussed how the Association would police its members.

Hearing no further testimony, Mayor Pollard closed the public hearing and returned the item to Council for further discussion and action.

At the request of Councilmember Tonkovich, Mr. Scott addressed concerns raised in Mr. Morley's letter related to the sign code.

Councilmembers discussed sign codes in other cities and their effectiveness and how they were administered. They also discussed the City's sign code administration, noting that it would remain complaint based with life safety issues a top priority. Also addressed was the issue of quality and sign content, acknowledging that regulation of quality and content was very limited and generally not legally defensible.

Mr. McNamara pointed out that the City's sign code was unlikely to be challenged because it applied the same regulations to all types of signs, rather than content and type of business being advertised.

Mr. Scott stated that the request to change the comprehensive plan designation of property located in Area 8 from OCI office, to a residential designation of R-18, was

acceptable to staff and had been incorporated into the proposed ordinance. He said there were no additional changes made following the January 5 meeting.

MOTION MADE BY COUNCILMEMBER JOLLOTA, SECONDED BY COUNCILMEMBER LEAVITT AND CARRIED UNANIMOUSLY TO APPROVE THE ORDINANCE. (M-3643) (DAVID SCOTT, MANAGER, DEVELOPMENT REVIEW SERVICES, 619-4153; CHAD EIKEN, SUPERVISOR, DEVELOPMENT REVIEW SERVICES, 696-8005, X8091; AND AZAM BABAR, SENIOR PLANNER, DEVELOPMENT REVIEW SERVICES, 696-8005, X8311)

CLOSED RECORD HEARING

None

UNFINISHED BUSINESS

None

NEW PROPOSALS AND REPORTS

None

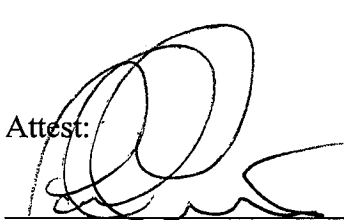
COMMUNICATIONS

- A. From the Council
- B. From the Mayor
- C. From the City Manager

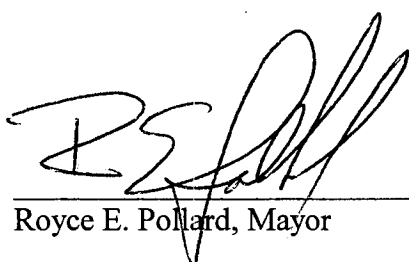
ADJOURNMENT

9:00 p.m.

Attest:



Paul Lewis, City Clerk



Royce E. Pollard, Mayor

Meetings of the Vancouver City Council are electronically recorded on audio and videotapes. The audio tapes are kept on file in the office of the City Clerk for a period of six (6) years.

CERTIFICATE

I, PAUL LEWIS, the duly appointed, qualified and acting City Clerk of the City of Vancouver, Washington, DO HEREBY CERTIFY that the attached is a full, true and correct copy of the excerpts from the minutes of the meeting of the City Council held on February 2, 2004 which reflect the second reading and passage of Ordinance No. M-3644.

DATED as of this 26th day of February, 2004.

CITY OF VANCOUVER, WASHINGTON

By 

Paul Lewis, City Clerk

MINUTES – REGULAR COUNCIL MEETING MONDAY, FEBRUARY 2, 2004

Mayor Pollard and Councilmember Harris were not present due to City business.

WORKSHOPS (City Council Chambers)

4:00-4:55 P.M. SURFACE WATER MANAGEMENT REPORT

Council met with Victor Ehrlich, City Engineer.

Summary:

Staff presented the 2003 work accomplishments, capital improvement program, and Greenway District Master Plan Improvements. (Victor Ehrlich, City Engineer, 696-8008, x8427)

4:55-5:35 P.M. 2004 TRANSPORTATION CAPITAL CONSTRUCTION UPDATE

Council met with Matt Ransom, Transportation Planning Manager, and Dan Swensen, Construction Manager.

Summary:

Staff presented information on the coming transportation construction season, including scope of projects, potential impacts and planned improvements. (Thayer Rorabaugh, Transportation Manager, 696-8290, x8039; Dan Swensen, Construction Manager, 696-8050, x8062; and Brian Carlson, Public Works Director, 696-8008, 8534)

5:35-6:05 P.M. COMMUNITY CHOICES 2010 RE: \$5 MILLION "FIT CLARK COUNTY" GRANT

Council met with Dave Miletich, Assistant Director of Parks and Recreation; Barbe West, Executive Director, Community Choices 2010; and Florence Wager, Co-Chair, Vancouver-Clark Parks and Recreation Commission.

Summary:

Community Choices 2010, in Clark County Washington, has been awarded a \$5.9 million, five-year grant to combat obesity, diabetes, and asthma. This grant, one of a handful distributed nationwide, targets health problems that some experts say is almost as dangerous and costly as smoking. The grant is funded under the Department of Health and Human Services new "STEPS to a Healthier US program," which aims to help Americans live longer, better, and healthier lives. Clark County is one of 23 communities

across the United States to receive this grant. The grant goals are to reduce and prevent obesity, to increase physical activity, to prevent diabetes among the population with pre-diabetes, to reduce complications of diabetes, and to reduce complications of asthma. (David Judd, Director of Parks and Recreation, 619-1109; and Dave Miletich, Assistant Director of Parks and Recreation, 619-1122)

REGULAR COUNCIL MEETING **(City Council Chambers)**

PLEDGE OF ALLEGIANCE

CALL TO ORDER AND ROLL CALL

The Regular Agenda meeting of the Vancouver City Council was called to order at 7:00 p.m. by Mayor Pro Tem Daniel P. Tonkovich in the Council Chambers of City Hall, 210 East 13th Street, Vancouver, Washington.

PRESENT: Councilmembers Smith, Leavitt, Stewart, Jollota, and Mayor Pro Tem Tonkovich

ABSENT: Mayor Pollard and Councilmember Harris

MOTION MADE BY COUNCILMEMBER JOLLOTA, SECONDED BY COUNCILMEMBER LEAVITT AND CARRIED UNANIMOUSLY TO EXCUSE MAYOR POLLARD AND COUNCILMEMBER HARRIS.

APPROVAL OF MINUTES FOR JANUARY 26, 2004

MOTION MADE BY COUNCILMEMBER LEAVITT, SECONDED BY COUNCILMEMBER JOLLOTA AND CARRIED UNANIMOUSLY TO APPROVE THE MINUTES FOR JANUARY 26, 2004.

SPECIAL PRESENTATION

- Mayor Pro Tem Tonkovich read and presented a certificate of appreciation to David J. Goggin for service on the Parking Advisory Committee.

CITIZEN COMMUNICATIONS

Mayor Pro Tem Tonkovich opened Citizen Communications and received the following testimony:

- Arch Miller, Chairman of the Board, International Air Academy, 107 South Santa Fe Court, Vancouver, shared information provided in a morning press release on his plans to lease 75,000 square feet of space in West Vancouver Barracks and the Grant House to establish a privately financed hospitality training center.

Councilmembers thanked Mr. Miller for his vision in stepping forward to help jump-start redevelopment of the West Barracks and reopening the former Grant House Restaurant.

- David Kalstrom, 603 West 21st Street, Vancouver, commended Council for attempting to save the Elm at the Museum on Main Street; its work in trying to make crossings on Mill Plain west of Andresen safer for pedestrians; and addition of wheelchair ramps around the City. Mr. Kalstrom also stated that the City would be faced with tough transportation issues in the future and expressed support for C-TRAN.
- Joann Schisler, 404 SE 101st Avenue, Vancouver, expressed frustration with a government system that would pay workers compensation to the man who kidnapped her child and took him out of the country. She provided Hague documents to City Attorney Gathe.
- Doug Sessions, 8505 NE 28th Place, Vancouver, Executive Director of the Friends of the Arts spoke in support of Walk-on Item 6A related to the Southwest Washington Center for the Arts.
- Edward L. Barnes, 4009 NE 50th Avenue, Vancouver, addressed the recent story in *The Columbian* related to Woods Landing and Salmon spawning grounds along the river and potential development near the site. He provided Council a copy of *Building Projects that Build Communities, Recommended Best Practices*.

City Manager McDonnell said he and staff were working diligently with stakeholders and owners of the property in this area to seek a viable solution to the many concerns.

- Sushuma Thornburg, 3000 “V” Street, Vancouver, represented the Humdingers of Rosemere and said the group was alive and well and supported happenings on the Historic Reserve.

Hearing no further testimony, Mayor Pro Tem Tonkovich closed Citizen Communications and returned to the Consent Agenda for action.

Mayor Pro Tem Tonkovich introduced members of Scout Troop 104 and Scout Troop 339 and presented each of them with a Certificate of Participation signed by the Mayor.

CONSENT AGENDA

It was requested that Items 2 and 3 be considered separately.

MOTION MADE BY COUNCILMEMBER JOLLOTA, SECONDED BY COUNCILMEMBER LEAVITT AND CARRIED UNANIMOUSLY TO APPROVE CONSENT ITEMS 1, 4, 5, AND 6.

1. PATHWAY AND ILLUMINATION IMPROVEMENTS – DISCOVERY HISTORIC LOOP TRAIL PROJECT, SECTION A FROM EAST RESERVE STREET TO THE SOUTHEAST CORNER OF PEARSON FIELD, CONSTRUCTION ACCEPTANCE AND RELEASE OF RETAINAGE

(Staff Report 010-04)

Summary:

This improvement and enhancement project installed ADA compliant curb ramps and sidewalks, street and trail illumination, pedestrian plaza, retaining walls, ornamental railing, drainage improvements and landscaping. D&A General Contractors of Vancouver, Washington has satisfactorily completed the subject improvements in accordance with the plans and specifications.

The original construction contract bid amount was \$253,985. Field adjustments and quantity underruns, mainly for asphalt concrete pavement and brick pavers, decreased the contract amount to \$244,393.34. The total construction cost of \$244,393.34 was 10.5% below the total construction budget of \$273,196. This project is funded by a federal (STP) Enhancement Fund Grant and local matching fund. Funds were budgeted in the Transportation Capital Fund, 2001-2002 budget, and were carried forward in the 2003-2004 budget.

MOTION ACCEPTED CONSTRUCTION AS COMPLETE IN ACCORDANCE WITH CONTRACT PLANS AND SPECIFICATIONS AND AUTHORIZED RELEASE OF RETAINAGE IN THE AMOUNT OF \$12,219.67 TO D&A GENERAL CONTRACTORS OF VANCOUVER, WASHINGTON, SUBJECT TO ALL RELEASES REQUIRED BY STATE LAW. (STEVE LEE, CONSTRUCTION ENGINEER, 696-8050, X4440)

2. INCREASE OF PROFESSIONAL SERVICE CONTRACTS FOR PARSONS BRINKERHOFF CONSTRUCTION SERVICES (PBCS) AND JACOBS CIVIL FOR THE 2004 CONSTRUCTION SEASON

(Staff Report 011-04)

Summary:

On July 15, 2002, Council approved two contracts for provision of contract administration/inspection services. These contracts allowed the Construction Services Division of Public Works the ability to issue task orders for on-call services if and when project expertise needs exceeded current staffing levels. Each of those contracts was capped at not-to-exceed \$500,000 for the two year plus duration of the contracts. As of December 2003, through a series of task orders, the PBCS contract has been utilized once with payments totaling \$5,942, and the Jacobs contract has been utilized twice with payments totaling \$148,094.

2004 is estimated to be the busiest construction season in the last 15 years. Estimated construction costs for various capital projects alone total more than \$30 million. Projects planned for 2004 include 192nd Avenue Phase 3, Burton Road/28th Street Phase 2, Burton Road/28th Street Phase 3, Fruit Valley Road, two neighborhood SCIP sewer projects and others. These projects, all happening at the same time, will require a greater number of qualified construction inspectors and project managers than the City currently employs. In order to temporarily supplement the City's workforce, staff proposes to use experts from PBCS to help with Fruit Valley Road, and experts from Jacobs Civil to help with Burton Road/28th Street Phase 2. Utilizing both companies for these major transportation roadway projects will require payments that will exceed the maximum contract amounts that were approved in 2002.

In order to best manage the 2004 workload effectively, staff proposes that the approved contract maximum with Jacobs Civil and PBCS be raised to \$1 million for each contract. No additional funding is required for these contracts. The costs associated with specific task orders, once issued, will be funded from the budgets already established for the respective projects.

In response to questions and concerns expressed by Councilmember Stewart, Dan Swensen, Construction Manager, explained the necessity of the increase to \$1 million per contract, noting that contracts would be paid out of approved projects that were already budgeted, and that no new dollars were being requested from the budget. He clarified that because the construction season for 2004 was expected to be the busiest in 15 years, he expected to exceed the initial \$500,000 contract amount, but did not anticipate the need for the full \$1 million.

MOTION MADE BY COUNCILMEMBER STEWART, SECONDED BY COUNCILMEMBER LEAVIT AND CARRIED UNANIMOUSLY TO AUTHORIZE THE INCREASE OF THE APPROVED CONTRACT WITH JACOBS CIVIL (CONTRACT #14486) FROM NOT-TO-EXCEED \$500,000 TO NOT-TO-EXCEED \$1 MILLION. ALL OTHER TERMS AND CONDITIONS OF THIS CONTRACT STILL APPLY; AND TO AUTHORIZE THE INCREASE OF THE APPROVED CONTRACT WITH PARSONS BRINKERHOFF CONSTRUCTION SERVICES (CONTRACT #14666) FROM NOT-TO-EXCEED \$500,000 TO NOT-TO-EXCEED \$1 MILLION. ALL OTHER TERMS AND CONDITIONS OF THIS CONTRACT STILL APPLY. (DAN SWENSEN, CONSTRUCTION MANAGER, 696-8050, X8062)

3. APPROVE A MASTER PLAN AND OFFICIALLY NAME THE NEIGHBORHOOD PARK LOCATED AT SE 42ND STREET AND SE 182ND AVENUE "FISHER'S CREEK PARK"

(Staff Report 012-04)

Summary:

The City owns a 1.9 acre neighborhood park on SE 42nd Street and SE 182nd Avenue. The site is referred to informally as "Hiddenbrook Park" and was acquired in 1999 from Newland Communities with PIF monies from Park District 4. This open space is unique because the neighborhood has agreed to pay for maintenance costs for the site for a three-year period.

The City initiated a master plan process for the site in July 2003. The master plan was finalized in October 2003 and includes play equipment, soft path trail, benches, and a graded, seeded open play area. The City's policy regarding park naming states "the Parks and Recreation Commission shall solicit names from interested parties, vote on those names, and send their recommendation(s) to City Council for final approval." Since this park serves the Fisher's Creek Neighborhood, the Commission requested help from the neighborhood association in the naming effort. Names submitted were brought before the Neighborhood Association Board and put in order of preference. Fisher's

Creek Park was chosen and refers to both the neighborhood in which the park is located as well as the natural stream that borders the north side of the park.

At the request of Councilmember Smith, staff comments were provided by Lisa Goorjian, Landscape Designer, Parks and Recreation, per the staff report.

Mayor Pro Tem Tonkovich provided an opportunity for the following neighborhood leaders to address the item:

- Stacey Johnson, President, Fisher's Creek Neighborhood Association, 18001 SE 43rd Way, Vancouver, thanked staff for its support in establishing a master plan that would provide for the park, noting the neighborhood stepped forward to provide maintenance for the first three years.
- Sandra Maszer, Fisher's Creek Neighborhood Association, Park Committee Chair, 18425 SE 43rd Lane, Vancouver, noted that the park would serve more than 1,000 homes at build-out, and supported the proposal.
- Kevin S. Havre, Vice President, Hiddenbrook Terrace Homeowners Association, 17936 SE 41st Loop, Vancouver, said his association was providing landscape irrigation by attaching the irrigation system for the park to the Homeowners' Association system, and spoke in support of the proposal.

MOTION MADE BY COUNCILMEMBER JOLLOTA, SECONDED BY COUNCILMEMBER LEAVITT AND CARRIED UNANIMOUSLY TO APPROVE THE MASTER PLAN AND ACCEPT THE NAME "FISHER'S CREEK PARK" FOR THE PROPERTY LOCATED AT SE 42ND STREET AND SE 182ND AVENUE. (LISA GOORJIAN, LANDSCAPE DESIGNER, PARKS AND RECREATION, 619-1134)

4. FIRE COMMAND OFFICERS GUILD COLLECTIVE BARGAINING AGREEMENT, 2004-2005

(Staff Report 013-04)

Summary:

The labor agreement between the City and the Fire Command Officers Guild expired December 31, 2003. The City and Guild entered into negotiations for a new contract in June 2003.

The Guild ratified a new two-year contract consisting of items agreed to between the City and the Guild. Several of the major issues that were discussed and resolved include:

- *Establishing a nondiscrimination clause.*
- *Establishing Duty Chief.*
- *Reduction in the shift overtime rate from 1.5 to 1.25.*
- *Ability to require medical/physical or psychological evaluations.*
- *Establishing a retiree health savings plan.*
- *New medical plans in line with Suppression.*

The economic agreement included the following increase in wages:

2004	5.5% market adjustment
2005	100% CPI- minimum 2%, maximum 4.5%

MOTION AUTHORIZED THE MAYOR AND CITY MANAGER OR HIS DESIGNEE TO SIGN THE FIRE COMMAND OFFICERS GUILD COLLECTIVE BARGAINING AGREEMENT FOR 2004-2005. (ANNE BAKER, HUMAN RESOURCES ANALYST, FIRE DEPARTMENT, 735-8783)

5. DEPUTY FIRE MARSHAL COLLECTIVE BARGAINING AGREEMENT, 2004-2005
(Staff Report 014-04)

Summary:

The labor agreement between the City and the Deputy Fire Marshal's Office expired December 31, 2003. The City and the Union entered into negotiations for a new contract in October 2003. The parties utilized the interest based bargaining process. Instead of presenting positions, the parties jointly decided which issues needed to be addressed and then discussed their interests on each item. Once all interests were explored, the parties jointly generated a number of options to resolve each issue. Then, through a process of group participation and consensual decision-making, the parties agreed on a solution.

The union subsequently ratified a new two-year contract consisting of items agreed to between the City and the Union. Several of the major issues that were discussed and resolved include:

- *Reducing annual step increases from 5% to 3.5%.*
- *Establishing a list of comparable cities for market study.*
- *Increased life insurance to 100% annual salary double indemnity.*

The economic agreement included the following increase in wages:

2004	1.7% COLA plus 5.8% market adjustment
2005	90% CPI- minimum 2%, maximum 4%
On Call Pay	Average of Comparables - \$155
Shift Differential	\$1.50 hr
<i>(in line with Coalition)</i>	

MOTION AUTHORIZED THE MAYOR AND CITY MANAGER OR HIS DESIGNEE TO SIGN THE DEPUTY FIRE MARSHAL COLLECTIVE BARGAINING AGREEMENT FOR 2004–2005. (ANNE BAKER, HUMAN RESOURCES ANALYST, FIRE DEPARTMENT, 735-8783)

6. APPROVAL OF CLAIMS FOR FEBRUARY 2, 2004

MOTION APPROVED CLAIM VOUCHERS FOR FEBRUARY 2, 2004 IN THE AMOUNT OF \$3,623,363.41.

WALK-ON ITEM

6A. SOUTHWEST WASHINGTON CENTER FOR THE ARTS MARKET STUDY AND ASSESSMENT OF COMMUNITY NEED FOR PERFORMING ARTS FACILITIES
(Staff Report 015-04)

Summary:

In the summer of 2003, 15 members of the community formed a Center for the Arts Steering Committee. Blaine Nisson and Val Ogden are the co-chairs of the Committee. The Committee reports that more than 65 individuals are involved in the Committee's work to pursue creation of a college/community partnership to bring the residents of Southwest Washington a performing arts facility. The Committee recently incorporated as the Southwest Washington Center for the Arts and filed for 501c3 federal tax status. Clark College is preparing a detailed report which should be completed by March 2004, outlining the impact such a facility would have on their instructional programs and how it would meet other needs of the College. So far, that work has documented that there are over 5,500 high school students involved in the performing arts in Clark County. In addition, Clark College currently has a fine-arts division that enjoys an excellent reputation but its instructional programs and scope are limited by the lack of appropriate facilities.

In November 2000 the City sold the Columbia Arts Center at 400 West Evergreen that had been used by community groups for performing arts. The proceeds from that sale

were approximately \$700,000 and those funds are currently available in the City's General Fund. The Committee has solicited proposals from firms interested in completing a market study. The purpose of the study is to determine what facilities will be needed to serve both community and Clark College needs. The study will also identify the partnerships and strategies needed to support the development, operation and funding of such facilities. The Committee is requesting that the City provide \$60,000 to pay for the market and community needs study. If approved, funding would come from the City's General Fund cash reserves and an appropriation would be included in the City's Spring 2004 supplemental budget request. Staff would use existing budget appropriation to support the payment prior to supplemental budget action.

Comments were provided by Mayor Pro Tem Tonkovich, per the staff report.

Councilmembers discussed the intended use of the \$700,000 proceeds from the sale of the Columbia Arts Center and the need for conducting the study before consideration of a partnership with organizations supporting an arts center in the community.

Councilmember Leavitt said he could support the study, but pointed out that with the increasingly grim budget picture, he wanted to examine the option of using the money to fund core services.

MOTION MADE BY COUNCILMEMBER JOLLOTA, SECONDED BY COUNCILMEMBER LEAVITT AND CARRIED UNANIMOUSLY TO AUTHORIZE THE CITY MANAGER TO ENTER INTO A CONTRACT WITH THE SOUTHWEST WASHINGTON CENTER FOR THE ARTS TO FUND A MARKET STUDY AND ASSESSMENT OF COMMUNITY NEED FOR PERFORMING ARTS FACILITIES.

Public Hearings

7. YEAR 2004 WATER AND SEWER REVENUE REFUNDING BONDS *(Staff Report 007-04)*

Mayor Pro Tem Tonkovich read the title of the ordinance into the record.

AN ORDINANCE of the City of Vancouver, Washington, authorizing the issuance of water and sewer revenue refunding bonds of the City in the principal amount of not to exceed \$29,000,000 to provide funds for refunding certain outstanding water and sewer revenue bonds of the City and to pay costs of issuance, establishing certain covenants, reserving the right to issue revenue bonds on a parity with the bonds herein authorized

upon compliance with certain conditions, authorizing the appointment of an escrow agent and the execution of an escrow agreement related to such refunding, providing the form and terms of said bonds, authorizing a preliminary official statement, providing for the disposition of the proceeds of sale, approving an agreement for ongoing disclosure, delegating authority to approve the final terms of said bonds, and repealing ordinance No. M-3625. (M-3644)

Summary:

Piper Jaffray has presented City staff with a proposal to partially refund the 1999 water and sewer revenue bonds, which will save on a present value basis at least \$900,000 over the seventeen year life of the bonds. The 1999 bond issue was part of the refunding proposal presented to Council in December 2002, and again in July 2003. However, interest rates increased during both time periods, causing the 1999 issue to not meet the minimum savings target of 3%. As a result, only part of the 1993 revenue bond issue was refunded by the 2002 revenue refunding bond issue. In January 2004, interest rates declined to levels making the 1999 issue a viable candidate for refunding.

City staff, bond counsel, and Piper Jaffray have updated the documents needed for this transaction. Staff requests Council authorization to issue up to \$29,000,000 in revenue refunding bonds, and to delegate authority to the City Manager to sign a bond purchase contract with Piper Jaffray. The bonds will only be refunded if at least a 3% present value savings target is realized. The delegation period would be up to 90 days after approval of the bond ordinance.

Councilmember Stewart disclosed that she had been notified effective December 31, 2003 that she had become the owner of stock in a Piper Jaffray spin-off company.

City Attorney Gathe stated Councilmember Stewart did not need to recuse herself because of the “remote interest exception” doctrine noting that her stock interest was less than 1%.

There were no challenges by Councilmembers or citizens.

Staff comments were provided by Carrie Lewellen, City Treasurer per the staff report.

In response to questions by Councilmember Stewart, Greg Sundberg, Managing Director of Piper Jaffray, fees for handling the refinance and explained that the maturity date would not change.

Mayor Pro Tem Tonkovich opened the public hearing with no testimony and returned the item to Council for action.

MOTION MADE BY COUNCILMEMBER JOLLOTA, SECONDED BY COUNCILMEMBER SMITH AND CARRIED UNANIMOUSLY TO APPROVE THE ORDINANCE. (M-3644) (CARRIE LEWELLEN, CITY TREASURER, 619-1082)

8. OVERLEGAL TRUCK LOADS AND STRUCTURE MOVES
(Staff Report 008-04)

Mayor Pro Tem Tonkovich read the title of the ordinance into the record.

AN ORDINANCE relating to management of the city rights of way and to regulation of vehicle size and load limits; repealing Ordinance 417, codified as Chapter 11.52 VMC; adding a new Chapter 9.05 (Overlegal Truck Loads, Structure Moves) to Title 9 (Traffic) of the Vancouver Municipal Code; and providing for severability and an effective date. (M-3645)

Summary:

Since 2000, Clark County has, through an interlocal agreement with the City, administered the City's permit system for vehicles carrying overlegal loads, such as house moves. The City and County ordinances on this subject are currently not consistent. In particular, the City's ordinance on house moves dates from 1907, while standards relating to size and load limitations were incorporated by reference into the VMC when the City adopted the Washington Model Traffic Ordinance in 1996, other provisions such as insurance and bonding need updating. In addition, the County ordinance and permitting system accommodate annual and thirty day permits on overlegal loads. County annual permits are generally issued for routine moves that involve little physical disturbance to the right-of-way surface, whereas monthly or single trip permits are issued where there is greater disruption of pedestrian and vehicular traffic and temporary loss of access to property. The City's ordinance does not contain express provisions for annual and monthly permits.

It is proposed to adopt a new Chapter in Title 9 (Traffic) consistent with that of the County to provide for issuance of annual and thirty day permits for overlegal loads and to incorporate updated bonding and insurance standards. The proposed ordinance would provide for annual permits only in the area of the City east of I-5, which generally has wider and less congested streets. The area west of I-5, with its narrower and more congested streets, would be handled under the monthly/single-use permit tier, except for major west side transportation corridors such as Fourth Plain and Mill Plain.

Staff comments were provided by Judy Zeider, Chief Assistant City Attorney, per the staff report.

Mayor Pro Tem Tonkovich opened and closed the public hearing with no testimony and returned the item to Council for action.

MOTION MADE BY COUNCILMEMBER JOLLOTA, SECONDED BY COUNCILMEMBER SMITH AND CARRIED UNANIMOUSLY TO APPROVE THE ORDINANCE. (M-3645) (JUDY ZEIDER, CHIEF ASSISTANT CITY ATTORNEY, 696-8251, X8828)

9. RELEASE OF 1985 STONEMILL BUSINESS PARK REZONE COVENANTS CURRENTLY APPLYING TO THE 10-ACRE SITE OF THE FUTURE FIRSTENBURG COMMUNITY CENTER AT 700 NE 136TH AVENUE; AND APPROXIMATELY 58 ACRES OF ADDITIONAL PROPERTIES ALONG 136TH AVENUE BETWEEN MILL PLAIN BOULEVARD SOUTH OF 9TH STREET IN THE FIRCREST AND AIRPORT GREEN NEIGHBORHOODS. PRJ2003-00509/CPZ2003-000124/SEP2003-00065 (FIRSTENBURG SITE) AND PRJ2003-01898/CPZ2003-00016/SEP2003-00065 (REMAINING 136TH AVENUE PROPERTIES)

(Staff Report 009-04)

Mayor Pro Tem Tonkovich read the title of the ordinance into the record.

(A) AN ORDINANCE relating to land use and zoning; releasing a 1985 rezone agreement covenant applied to a 10-acre site, parcel Number 165180-000 located at 700 NE 136th Avenue; providing for severability; providing for an effective date. (M-3646)

Mayor Pro Tem Tonkovich read the title of the ordinance into the record.

(B) AN ORDINANCE relating to land use and zoning; releasing a 1985 rezone agreement covenant applied to approximately 58 acres of 136th Avenue properties between Mill Plain Boulevard south of 9th Street, parcel numbers are 164738-000 165165, 165174, 165174-005, 165174-010, 165174-015, 165174-020, 165174-025, 165174-030, 165175-000, 165175-005; providing for severability; providing for an effective date. (M-3647)

Summary:

The Stonemill covenants were established by Clark County along 136th Avenue as part of a 1985 rezone agreement at a time when the area was largely undeveloped and many existing land use regulations were not in place. The covenant agreement established transportation standards and extensive landscaping, parking, use, access, and building design requirements, with the stated intent of providing "quality, contemporary site, architectural landscape design." The covenants also require construction of an eight-foot wall abutting the Pinebrook Homeowners Association and lists the association as an intended beneficiary of the covenants. This wall has since been built. It is located at the rear of the Firstenburg site.

Since 1985, there has been extensive development in the area which has annexed to the City of Vancouver. Remaining undeveloped properties currently subject to the covenant have all submitted and received site plan approval in the past three years. The existence of the covenants was not uncovered in the recent land use applications, approvals, or purchases. There have also been additional development agreements between Vancouver and the property owner, Dale Haagen, for addressing transportation and use issues. The City of Vancouver purchased the Firstenburg Community Center site in 2002.

On January 12, 2004, staff met with Fircrest Neighborhood residents at the Pinebrook Homeowners Clubhouse to discuss the proposal. On January 13, the Vancouver Planning Commission voted 8-1 in favor of removing the rezone covenants at the Firstenburg site, and 5-4 in favor of removing the covenants on the remaining 136th Avenue properties. Commission members voting against removal expressed concern about doing so without written consent of the Pinebrook Homeowners Association, as well as concerns that the recent site plan applications and approvals did not consider the covenants.

Staff comments were provided by Bryan Snodgrass, Principal Planner, Long Range Planning, and Jim McNamara, Assistant City Attorney, per the staff report.

Mayor Pro Tem Tonkovich opened the public hearing and received the following testimony:

- Jade Dierdorff, Fircrest Neighborhood Association Chair, 12300 NE 17th Circle, stated her opposition related to the 136th Avenue properties on the testimony registration card; however, her comments, including written comments, indicated the neighborhood wanted greater levels of partnership with developers to ensure business growth is performed with integrity and procurement of neighborhood residential and green space areas. She asked for consistency in campus style settings.

- Mark Stoker, 211 East McLoughlin, Vancouver represented Dale Haagen in support of the proposed ordinance. He provided background on what projects are already designed and/or constructed on the Haagen sites and noted that the footprint of development was significantly less than what was allowed under the covenants.

Hearing no further testimony, Mayor Pro Tem Tonkovich closed the public hearing and returned the item to Council for discussion and action.

Councilmembers felt there were no issues or concerns related to the Firstenburg site.

MOTION MADE BY COUNCILMEMBER STEWART, SECONDED BY COUNCILMEMBER JOLLOTA AND CARRIED UNANIMOUSLY TO APPROVE ORDINANCE A. (M-3646)

Councilmembers discussed the multiple ownerships over the years of the land along 136th Avenue, the various covenants and county/city jurisdictions, as well as some private covenants, which were all in place prior to annexation. It was noted that transportation vesting would not be affected by this action.

City Attorney McNamara explained that the early covenants were mostly related to design rather than use restrictions and that those designs were generally outdated based on current zoning regulations.

Chad Eiken, Supervisor, Development Review Services, explained the outreach process and neighborhood notification procedures. He said that Neighborhood associations were notified during the process, but not necessarily a homeowner's association.

Councilmember Leavitt pointed out that a number of items in the covenants no longer meet current codes and are no longer practical to implement.

MOTION MADE BY COUNCILMEMBER LEAVITT, SECONDED BY COUNCILMEMBER SMITH AND CARRIED UNANIMOUSLY TO APPROVE ORDINANCE B. (M-3647) (BRYAN SNODGRASS, PRINCIPAL PLANNER, LONG-RANGE PLANNING, 696-8005, X8195)

CLOSED RECORD HEARING

None

UNFINISHED BUSINESS

None

NEW PROPOSALS AND REPORTS

None

COMMUNICATIONS

A. From the Council

B. From the Mayor

- MOTION MADE BY COUNCILMEMBER JOLLOTA, SECONDED BY COUNCILMEMBER SMITH AND CARRIED UNANIMOUSLY TO RE-APPOINT TO THE PARKING ADVISORY COMMITTEE DEAN IRVIN AND JIM JOHNSON, TERMS TO EXPIRE JANUARY 2008.
- MOTION MADE BY COUNCILMEMBER JOLLOTA, SECONDED BY COUNCILMEMBER SMITH AND CARRIED UNANIMOUSLY TO APPOINTMENT TO THE PARKING ADVISORY COMMITTEE BILL SCHMIDT, TERM TO EXPIRE JANUARY 2008.
- MOTION MADE BY COUNCILMEMBER JOLLOTA, SECONDED BY COUNCILMEMBER SMITH AND CARRIED UNANIMOUSLY TO APPOINT TIM LEAVITT TO THE LOWER COLUMBIA FISH RECOVERY BOARD.

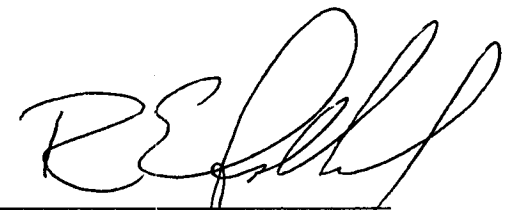
C. From the City Manager

ADJOURNMENT

9:28 p.m.

Attest:


Paul Lewis, City Clerk


Royce E. Pollard, Mayor

Meetings of the Vancouver City Council are electronically recorded on audio and videotapes. The audio tapes are kept on file in the office of the City Clerk for a period of six (6) years.

STATE OF WASHINGTON)

) SS:

County of Clark)

Columbian

SHARYN FROST-FINANCE
CITY OF VANCOUVER-L
PO BOX 1995
VANCOUVER WA 98668-1995

REFERENCE: 70251 lwsrrb
2289286 NOTICE OF PUBLI

I, the undersigned say,

That I am over the age of eighteen and not interested in the above entitled matter; that I am now, and at all time embraced in the publication herein mentioned, was, the principal clerk of the printer of The Columbian, a daily newspaper printed, published and circulated in the said county and adjudged a newspaper of general circulation by the Superior Court of the County of Clark, State of Washington, under Proceeding No. 802006715; that the advertisement, of which the annexed is a true printed copy, was published in the above-named newspaper on the following dates, to wit:

PUBLISHED ON: 01/29

TOTAL COST: 91.00 AD SPACE: 65 LINE
FILED ON: 01/29/04

I Certify (or declare) under penalty of perjury that the foregoing is true and correct.

Signature

Judy Moody

[illegible]

\$26,250,000
CITY OF VANCOUVER, WASHINGTON
Water and Sewer Revenue Refunding Bonds, 2004

Bonds Dated: February 26, 2004

Bonds Due: June 1, 2004–2020

BOND PURCHASE CONTRACT

Mr. Patrick McDonnell
City Manager
City of Vancouver, Washington
210 East Thirteenth Street
Vancouver, Washington 98668

February 4, 2004

Mr. McDonnell:

Piper Jaffray & Co., acting as the “Purchaser,” is pleased to offer to purchase from the City of Vancouver, Washington (the “Seller”) all of its \$26,250,000 Water and Sewer Revenue Refunding Bonds, 2004 (the “Bonds”). This offer is based upon the terms and conditions set forth below and in the attached Exhibit A, which when accepted by the Seller shall constitute the terms and conditions of our Bond Purchase Contract for the Bonds. Those terms and conditions are as follows:

1. Prior to date of delivery and payment for the Bonds identified in paragraph (i) of Exhibit A (the “Closing”), the Seller shall pass an Ordinance authorizing the issuance of the Bonds and accepting the Purchaser’s offer to purchase the Bonds (the “Ordinance”) in form and substance acceptable to the Purchaser.
2. The Seller shall sell and deliver to the Purchaser, and the Purchaser shall purchase, accept delivery of, and pay for the entire \$26,250,000 principal amount of the Bonds for the purchase price set forth in paragraph (a) of Exhibit A.
3. The Seller consents to and ratifies the use by the Purchaser of the information contained in the Official Statement relating to the Bonds, including the appendices thereto (the “Official Statement”) in marketing the Bonds, and further authorizes the use of the Official Statement in connection with the public offering and sale of the Bonds.

For the sole purpose of the Purchaser’s compliance with Securities and Exchange Commission Rule 15c2–12 (b)(1), the Seller “deems final” the preliminary version of the Official Statement (the “Preliminary Official Statement”) as of its date, except for the omission of information as to selling compensation, principal amount, interest rates, offering prices, delivery dates, and other terms of the Bonds depending on such matters.

4. The Seller represents to, and agrees with, the Purchaser, as of the date hereof and as of the date and time of Closing, that:
 - a. The Seller has and will have at Closing full legal right, power, and authority to enter into and perform its obligations under this Bond Purchase Contract and under the Ordinance, to approve the Ordinance and to sell and deliver the Bonds to the Purchaser;

- b. This Bond Purchase Contract, the Ordinance, and the Bonds do not and will not conflict with or create a breach of or default in any material respect under any existing law, regulation, judgment, order or decree, or any agreement, lease, or instrument to which the Seller is subject or by which it is bound;
 - c. No governmental consent, approval, or authorization other than the Ordinance is required to be obtained by the Seller for the sale of the Bonds to the Purchaser;
 - d. This Bond Purchase Contract, the Ordinance and the Bonds (when issued and delivered in accordance with the Ordinance and sold to the Purchaser as provided herein) will be legal, valid and binding obligations of the Seller, enforceable in accordance with their terms, subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against municipal corporations in the State;
 - e. The Ordinance shall have been duly passed by the Seller, shall be in full force and effect and shall not have been amended without the Purchaser's consent at the time of Closing;
 - f. The Preliminary Official Statement, except as to matters added, modified, amplified, revised, and/or corrected in the Official Statement, shall be accurate and complete in all material respects as of its date and the Official Statement shall be accurate and complete in all material respects as of its date and as of the date of Closing, with regards to which, no representation is made on the information regarding DTC and its book-entry system, Financial Guaranty Insurance Company (the "Insurer") and the related insurance policy, Causey Demgen & Moore Inc., Certified Public Accountants, (the "Verification Agent") and U.S. Bank National Association (the "Escrow Agent"); and
 - g. Any certificate signed by any official of the Seller and delivered to the Purchaser pursuant to or in connection with this Bond Purchase Contract shall be deemed a representation by the Seller to the Purchaser as to the truth of the statements therein made and is delivered to the Purchaser for such purpose only.
5. As conditions to the Purchaser's obligations hereunder:
- a. From the date of the Seller's acceptance of this Bond Purchase Contract to the date of Closing, there shall not have been any:
 - (1) Material adverse change in the financial condition or general affairs of the Seller;
 - (2) Event, court decision or proposed law, rule, or regulation which may have the effect of changing the federal income tax exemption of the interest on the Bonds;
 - (3) International or national crisis, suspension of stock exchange trading or banking moratorium materially affecting the marketability of the Bonds;
 - (4) Material adverse event with respect to the Seller which in the reasonable judgment of the Purchaser requires or has required an amendment, modification, or supplement to the Official Statement and such amendment, modification, or supplement is not made; or
 - (5) Downgrade, suspension or withdrawal or an announcement of the possibility of a downgrade, suspension or withdrawal of any rating of bonds, notes, or other obligations of the Seller (including, without limitation, the Bonds), by Moody's or Standard & Poor's and such action, in the reasonable opinion of the Purchaser, will materially adversely affect the marketability or the market price of the Bonds.

- b. The Seller will provide the Purchaser, within seven business days of the date hereof, copies of the Official Statement in sufficient quantity to comply with the Purchaser's obligations under the Securities and Exchange Commission Regulation 15c2-12(b)(4).
- c. The Seller has agreed in the Ordinance that the Seller will provide or cause to be provided, in accordance with the requirements of Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission, certain financial information and operating data, including audited financial statements for the preceding fiscal year, timely notice of the occurrence of certain material events with respect to the Bonds and timely notice of a failure by the Seller to provide the required financial information. The Purchaser's obligation to purchase the Bonds shall be conditioned upon the Seller's undertaking to provide this information to be in full force and effect at the Closing.
- d. Concurrently with the issuance of the Bonds, the Insurer will issue a municipal bond insurance policy guaranteeing the payment of principal of and interest on the Bonds (the "Bond Insurance Policy").
- e. At or prior to Closing, the Purchaser shall have received the following:
 - (1) The Bonds, duly executed and authenticated;
 - (2) A certificate of authorized officers of the Seller, in form and substance acceptable to the Seller and Purchaser, to the effect; (i) that the Seller's execution of the Official Statement is authorized, (ii) that the Official Statement (including the financial and statistical data contained therein) did not as of its date, and will not as of the date of Closing, contain any untrue statement of material fact or omit to state a material fact necessary to make such statements, in light of the circumstances under which they were made, not misleading, with regards to which, no such representation need be made on the information regarding DTC and its book-entry system, the Insurer and related insurance policy, the Verification Agent and the Escrow Agent; and (iii) that the representations of the Seller contained in this Bond Purchase Contract are true and correct when made and as of Closing;
 - (3) An approving opinion or opinions of the law firm identified in paragraph (j) of Exhibit A as bond counsel or from another nationally recognized firm of municipal bond lawyers (either or both of which shall be referred to as "Bond Counsel") satisfactory to the Purchaser and dated as of Closing, to the effect; (i) the Bonds are valid, legal and binding obligations of the Seller and payable from the sources described in the Ordinance; (ii) that interest on the Bonds is exempt from federal income taxation; and (iii) that the Bonds are not "private activity bonds" within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended;
 - (4) A certificate of authorized officers of the Seller to the effect that, except as disclosed in the Official Statement, no controversy or litigation is pending, or to the knowledge of the Seller threatened, against the Seller; (i) to restrain or enjoin the sale or delivery by the Seller of the Bonds; (ii) in any manner questioning the authority of the Seller to issue, or the issuance of validity of, the Bonds; (iii) questioning the constitutionality of any, resolution or ordinance, or the validity of any proceedings authorizing the issuance of the Bonds; (iv) questioning the validity or enforceability of the Ordinance; (v) contesting in any way the completeness or accuracy of the Official Statement; (vi) questioning the titles of any officers of the Seller under the laws of the State of Washington; or (vii) which might in any material respect adversely affect the financial condition of the Seller;
 - (5) A certificate, dated the date of Closing, to the effect that the Seller's undertaking described in Section 19 of the Ordinance is in effect and has not been amended and that the Seller has not defaulted in any material respect under any prior undertakings to provide ongoing information pursuant to the Rule;

- (6) A certificate signed by authorized officers of the Seller to the effect that the officers of the Seller who signed or whose facsimile signatures appear on the Bonds were on the date of execution of the Bonds the duly elected or appointed and qualified and acting officers of the Seller and that their signatures are genuine or accurate facsimiles;
 - (7) A certified copy of the Ordinance;
 - (8) A copy of the Official Statement, signed on behalf of the Seller by an authorized officer of the Seller;
 - (9) A non-arbitrage certificate signed by an authorized officer of the Seller;
 - (10) An executed copy of this Bond Purchase Contract;
 - (11) Evidence satisfactory to the Purchaser of the assignment of ratings on the Seller's outstanding uninsured water and sewer revenue bonds of "A1" by Moody's and "A+" by Standard and Poor's and ratings on the Bonds of "Aaa" by Moody's and "AAA" by Standard and Poor's, together with a confirmation from the Seller that there has been no adverse change in any of such ratings as of the date of the Closing;
 - (12) A copy of the Bond Insurance Policy issued by the Insurer and an opinion dated the date of Closing and addressed to the Purchaser of the General Counsel of the Insurer in a form satisfactory to the Purchaser; and
 - (13) Such additional legal opinions (including without limitation a written opinion of Gottlieb, Fisher & Andrews, PLLC, counsel to the Purchaser), certificates, instruments and documents as the Purchaser may reasonably request to evidence the truth, accuracy and completeness, as of the date hereof and as of the date of Closing, of the representations and warranties contained herein and of the statements and information contained in the Official Statements and the due performance by the Seller at or prior to Closing of all agreements then to be performed and all conditions then to be satisfied by the Seller.
6. The Seller shall pay or cause to be paid, from proceeds of the Bonds or other legally available money, all expenses incident to the performance of the Seller's obligations hereunder, including but not limited to, the cost of ratings and insurance on the Bonds, the cost of printing and delivering the Bonds; the cost of preparation, printing (and/or word processing and reproduction), distribution and delivery of the Preliminary Official Statement, the Official Statement, the Ordinance, and all other agreements and documents contemplated hereby and any drafts thereof in reasonable quantities as requested by the Purchaser; and the fees and disbursements of Bond Counsel, Verification Agent, Escrow Agent, the Bond Registrar and any other experts or consultants retained in connection with the Bonds.

7. If, between the date hereof and 25 days following the date of Closing, any material adverse event affecting the Seller or the Bonds shall occur which results in the Official Statement containing any untrue statement of a material fact or omitting to state any material fact necessary to make the Official Statement, or the statements or information therein contained, in light of the circumstances under which they were made, not misleading, the Seller shall notify the Purchaser and, if in the opinion of the Seller and the Purchaser such event requires a supplement or amendment to the Official Statement, the party whose omission, misstatement, or changed circumstance has resulted in the supplement or amendment will supplement or amend the Official Statement in a form and in a manner approved by the Seller and the Purchaser.
8. Any notice or other communication to be given to the Seller under this Bond Purchase Contract shall be given by delivering the same in writing to its respective address set forth on page one of this Bond Purchase Contract. All notice or other communication to be given to the Purchaser under this Bond Purchase Contract shall be given by delivering the same in writing to: Piper Jaffray & Co., 800 Nicollet Mall, Minneapolis, Minnesota, 55402 (Attention: Municipal Research).
9. Upon acceptance, this Bond Purchase Contract shall be binding upon the Seller and the Purchaser. This Bond Purchase Contract is intended to benefit only the parties hereto. The Seller's representations and warranties shall survive any investigation made by or for the Purchaser, delivery and payment for the Bonds, and the termination of this Bond Purchase Contract. Should the Seller fail to satisfy any of the foregoing conditions or covenants, or if Purchaser's obligations are terminated for any reason permitted under this Bond Purchase Contract, then neither the Purchaser nor the Seller shall have any further obligations under this Bond Purchase Contract, except that any expenses incurred shall be borne in accordance with Section 6.
10. This Offer expires on the date set forth in paragraph (1) of Exhibit A.

Respectfully submitted,

PIPER JAFFRAY & CO.



D. Greg Sundberg
Managing Director, Public Finance

Accepted and agreed to as of the date of this Bond Purchase Contract:

CITY OF VANCOUVER



Patrick McDonnell
City Manager

EXHIBIT A
DESCRIPTION OF THE BONDS

(a) **Purchase Price:**

Par Amount of Bonds:	\$26,250,000.00
Plus: Reoffering Premium:	2,513,374.20
Less: Underwriter's Discount:	(177,187.50)
Purchase Price:	\$ 28,586,186.70

(plus accrued interest to the date of delivery)

(b) **Denominations:** \$5,000 each or integral multiple thereof

(c) **Dated Date:** February 26, 2004

(d) **Form:** Fully registered Book-Entry only with privileges of exchange at the expense of the Seller.

(e) **Interest Payable:** Interest on the Bonds from their dated date to maturity will be payable commencing on June 1, 2004 and semiannually thereafter on each December 1 and June 1 until redeemed.

(f) **Maturity Schedule:** The principal component of the Bonds constitutes the principal payable with respect to the Bonds which mature on the dates and amounts and shall bear interest at the rates set forth below:

Maturity Schedule

Due June 1	Principal Amount	Interest Rate	Yield	Due June 1	Principal Amount	Interest Rate	Yield
2004	\$ 30,000	2.000%	1.15%	2013	\$ 805,000	3.375%	3.52%
2005	120,000	2.000	1.28	2014	2,600,000	5.250	3.69
2006	125,000	2.000	1.62	2015	2,750,000	5.250	3.82
2007	125,000	2.500	1.92	2016	2,895,000	5.250	3.93
2008	130,000	2.750	2.28	2017	2,185,000	5.000	4.03
2009	135,000	3.000	2.58	2018	2,305,000	5.000	4.13
2010	1,455,000	3.000	2.84	2019	3,650,000	5.000	4.23
2011	1,505,000	5.000	3.08	2020	3,840,000	5.000	4.31
2012	1,595,000	5.000	3.32				

(g) **True Interest Cost:** 3.998%

(h) **No Optional Redemption:** The Bonds are not subject to redemption prior to their maturities.

(i) **Delivery Date, Time and Location:** February 26, 2004 at 9:00 a.m. Pacific Time

To be held at the offices of Preston Gates & Ellis, LLP
925 Fourth Avenue, Suite 2900
Seattle, Washington 98104

(j) **Bond Counsel:** Preston, Gates & Ellis LLP

(k) **Method of Payment:** Federal Funds Wire

(l) **Offer Expires:** February 26, 2004 at 11:59 p.m. Pacific Time

PRELIMINARY OFFICIAL STATEMENT DATED JANUARY 29, 2004

**NEW ISSUE
BOOK-ENTRY ONLY**

**Moody's: Applied For
Standard & Poor's: Applied For
(See "BOND INSURANCE" and "OTHER MATTERS—Ratings" herein)
Financial Guaranty Insured**

In the opinion of Preston Gates & Ellis, LLP, Seattle, Washington, Bond Counsel, interest on the Bonds is excluded from gross income subject to federal income taxation pursuant to the Internal Revenue Code of 1986, as amended, subject to certain conditions and assumptions described herein under "LEGAL MATTERS—Tax Exemption." The Bonds are not private activity bonds. Interest on the Bonds is included in the computation of certain federal taxes on corporations.

\$26,310,000*

**CITY OF VANCOUVER, WASHINGTON
WATER AND SEWER REVENUE REFUNDING BONDS, 2004**

Dated: Date of Delivery

Due: June 1, as shown below

The City of Vancouver, Washington, Water and Sewer Revenue Refunding Bonds, 2004 will be issued as fully registered bonds in the name of Cede & Co., as Bondowner and as nominee for The Depository Trust Company, New York, New York. DTC will act as securities depository for the Bonds. Individual purchases and sales of the Bonds may be made in book-entry form only in denominations of \$5,000 or any integral multiple thereof. Purchasers will not receive certificates representing their interest in the Bonds. Interest on the Bonds will be payable on June 1, 2004, and semiannually thereafter on December 1 and June 1 of each year. So long as DTC or its nominee is the Registered Owner of the Bonds, the principal of and interest on the Bonds will be payable by the fiscal agency of the State of Washington, currently The Bank of New York, in New York, New York, directly to DTC which, in turn, is obligated to remit such principal and interest to the DTC participants for subsequent disbursement to the owners of the Bonds as described in Appendix D hereto, "BOOK-ENTRY SYSTEM."

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by the FINANCIAL GUARANTY INSURANCE COMPANY.



MATURITY SCHEDULE*

<u>Due June 1</u>	<u>Amount</u>	<u>Coupon</u>	<u>Yield</u>	<u>CUSIP No.</u>	<u>Due June 1</u>	<u>Amount</u>	<u>Coupon</u>	<u>Yield</u>	<u>CUSIP No.</u>
2004	\$ 175,000				2013	\$ 800,000			
2005	125,000				2014	2,595,000			
2006	130,000				2015	2,740,000			
2007	135,000				2016	2,875,000			
2008	135,000				2017	2,160,000			
2009	140,000				2018	2,280,000			
2010	1,470,000				2019	3,620,000			
2011	1,525,000				2020	3,810,000			
2012	1,595,000								

The Bonds are subject to redemption by the City prior to their stated maturities as provided herein.

The Bonds and all Outstanding Parity Bonds are, and all Future Parity Bonds, if any, when issued, will be, secured by a lien and charge upon the Revenues of the System, and such lien and charge upon the Revenues is prior and superior to all other charges of any kind and nature whatsoever, except for the payment of Operating Expenses. The Bonds are revenue obligations of the City. Neither the full faith and credit nor the taxing power of the City are pledged to the payment of the Bonds. The Bonds are not obligations of the State of Washington or any political subdivision thereof other than the City.

This cover page contains certain information for quick reference only, and is not a summary of the issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Bonds are offered by the Underwriter, when, as and if issued, subject to the approving legal opinion of Preston, Gates & Ellis LLP, Seattle, Washington, Bond Counsel. Certain legal matters will be passed upon for the Underwriter by its counsel, Gottlieb, Fisher & Andrews, PLLC, Seattle, Washington. It is anticipated that the Bonds will be available for delivery by Fast Automated Securities Transfer, through the facilities of DTC on or about February 26, 2004.

PiperJaffray.

* Preliminary, subject to change.

No dealer, broker, salesman, or other person has been authorized to give any information or to make any representation, other than the information and representations contained in this Official Statement, in connection with the offering of the Bonds and, if given or made, such information or representations must not be relied upon as having been authorized by the City or the Underwriter. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy any of the Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation, or sale.

The information set forth herein has been obtained from the City and other sources which are believed to be reliable. The information set forth herein under the caption "BOND INSURANCE" and in Appendix E — "MUNICIPAL BOND INSURANCE POLICY SPECIMEN" has been furnished by the Financial Guaranty Insurance Company, the Insurer. The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. The information herein is subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof.

In connection with the offering of the Bonds, the Underwriter may over-allot or effect transactions which stabilize or maintain the market price of such Bonds at levels above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

In the preparation of the projections in this Official Statement, the City has made certain assumptions with respect to conditions that may occur in the future. While the City believes these assumptions are reasonable for the purpose of the projections, they depend upon future events, and actual conditions may differ from those assumed. The City does not represent or guarantee that actual results will replicate the estimates in the various tables set forth in this Official Statement. Potential purchasers of the Bonds should not rely on the projections in this Official Statement as statements of fact. Such projections are subject to change, and will change, from time to time. The City has not committed itself to provide investors with updated forecasts or projections.

The CUSIP numbers are included on the front cover of this Official Statement for convenience of the holders and potential holders of the Bonds. No assurance can be given that the CUSIP numbers for the Bonds will remain the same after the date of issuance and delivery of the Bonds.

CITY OF VANCOUVER
Clark County, Washington
610 Esther Street
P.O. Box 1995
Vancouver, Washington 98668
(360) 696-8200
www.ci.vancouver.wa.us*

Elected Officials

Royce E. Pollard	Mayor
Jeanne Harris	Council Member
Pat Jollota	Council Member
Tim Leavitt	Council Member
Larry Smith	Council Member
Jeanne Stewart	Council Member
Dan Tonkovich	Council Member

Appointed Officials

Pat McDonnell	City Manager
Paul Lewis	Financial & Management Services Manager/City Clerk
Carrie Lewellen	Treasurer
Linda Gellings	Accounting Manager
Ted Gathe	City Attorney

Bond Counsel

Preston, Gates & Ellis LLP
Seattle, Washington

*Neither the information on the City's website, nor any links from that website, is part of this Official Statement, and such information cannot be relied upon to be accurate as of the date of this Official Statement, nor should any such information be relied upon to make investment decisions regarding the Bonds.

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\$26,310,000*
CITY OF VANCOUVER, WASHINGTON
WATER AND SEWER REVENUE REFUNDING BONDS, 2004

INTRODUCTION

This Official Statement is furnished by the City of Vancouver, a municipal corporation duly organized and existing under and by virtue of the laws of the State of Washington (the "City"), to provide information regarding the City and \$26,310,000* principal amount of the City's Water and Sewer Revenue Refunding Bonds, 2004 (the "Bonds"). This Official Statement is qualified in its entirety by reference to Ordinance No. M-____ of the City passed by the Council on February 2, 2004 (the "Bond Ordinance"). The Bonds are issued under the provisions of the constitution and laws of the State of Washington (the "State") and pursuant to the Bond Ordinance, a copy of which is available from the City Clerk. Capitalized terms used herein and not otherwise defined shall have their respective meanings given in the Bond Ordinance. All terms used herein are included in Appendix E hereto, "CERTAIN DEFINITIONS FROM THE BOND ORDINANCE."

DESCRIPTION OF THE BONDS

Purpose

The proceeds of the Bonds will be used to advance refund and defease the callable portions of the City's outstanding Water and Sewer Revenue Bonds, 1999, to pay the premium for the Bond Insurance Policy and to pay costs of issuing the Bonds. See "Refunding Plan" herein.

General

The Bonds will be dated their Date of Delivery and will be issued in fully registered form in denominations of \$5,000 each or integral multiples thereof within a maturity. The Bonds will mature on the dates and in the principal amounts and will bear interest from their date, payable on June 1, 2004 and semiannually thereafter on December 1 and June 1 of each year at the rates set forth on the cover of this Official Statement. Interest on the Bonds will be calculated on the basis of a year of 360 days and twelve 30-day months.

Purchasers of Bonds will not receive physical certificates showing their investment. The City has chosen to use the book-entry only system for the Bonds. A description of the book-entry only system is attached to this Official Statement as Appendix D. Individual purchasers should receive confirmations of their purchase from their brokers and will receive payments through their brokers as well as all other communications about the Bonds. The City will not know the identity of the purchasers of the Bonds. Therefore, the City will not be communicating directly with such purchasers. All communications will be routed through The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. The City will transmit all payments and communications to DTC. It will be DTC's responsibility to communicate information and to transmit payments through brokerage companies to individual purchasers of the Bonds. The purchaser of a Bond is subject to all of DTC's rules and regulations. The City is not responsible for the performance of DTC and, while the City has no reason to believe that DTC will not perform its duties and responsibilities, the City is notifying purchasers of the Bonds that it will not be responsible for the failure of DTC or any broker to pass on communications or to credit payments accurately or on time to individual brokerage accounts. See Appendix D—"BOOK-ENTRY SYSTEM."

* Preliminary, subject to change.

Refunding Plan

The proceeds of the Bonds, together with money in the Reserve Account allocated to the Refunded Bonds (defined below), will be used to advance refund and defease \$25,125,000 principal amount of the City's outstanding Water and Sewer Revenue Bonds, 1999 maturing on June 1 in the years 2010 through and including 2020 (the "Refunded Bonds"). The advance refunding of the Refunded Bonds is being undertaken to achieve present value savings for the City.

The City will purchase certain non-callable direct or guaranteed obligations of the United States Government, referred to herein as the Acquired Obligations. The Acquired Obligations will be deposited in a trust account (the "Escrow Fund") with U.S. Bank National Association (the "Escrow Agent"), and the maturing principal of the Acquired Obligations and interest earned thereon, together with the cash balance in the Escrow Fund will provide for the payment of:

- (1) the interest on the 1999 Refunded Bonds, if any, coming due on each date on which interest is due and payable, to and including June 1, 2009; and
- (2) the redemption price (100% of the principal amount thereof) of the 1999 Refunded Bonds on June 1, 2009.

Verification of Mathematical Calculations

The mathematical accuracy of (a) the mathematical computations of the adequacy of the maturing principal amounts of and interest on the Acquired Obligations and initial cash balance to be held by the Escrow Agent to pay principal and interest on the Refunded Bonds as described above and (b) the mathematical computations supporting the conclusion of Bond Counsel that the Bonds are not "arbitrage bonds" under Section 148 of the Code will be verified by Causey Demgen & Moore Inc., Denver, Colorado, independent certified public accountants.

Sources and Uses of Funds

The table below sets forth the sources and uses of funds in connection with the issuance of the Bonds and the refunding of the Refunded Bonds.

Sources of Funds

Principal Amount of the Bonds	\$
Transfers from Bond Fund held for Refunded Bonds	
Original Issue Premium/(Discount)	
Total Sources:	\$

Uses of Funds

Escrow Fund Deposit	\$
Bond Insurance Policy Premium	
Costs of Issuance*	
Total Uses:	\$

* Includes, among other things, legal, accounting, verification, Bond Registrar and rating agency fees, printing costs and Underwriter's discount.

Optional Redemption

The Bonds maturing on and after _____ may be redeemed at the option of the City on _____, and on any date thereafter, in whole or in part at any time (within one or more maturities to be selected by the City), at the redemption prices (expressed as a percentage of the principal amount of Bonds so redeemed) set forth below, together with interest accrued on the principal amount to be redeemed to the date fixed for redemption:

Redemption Dates

_____ to and including _____
_____ to and including _____
_____ and thereafter

Redemption Prices

_____%
_____%
_____%

For as long as the Bonds are held in book-entry only form, the selection of Bonds within a maturity to be redeemed shall be made in accordance with the operation arrangements then in effect at DTC.

Selection of Bonds for Redemption; Notice of Redemption; Effect of Redemption

The Bond Ordinance provides that for so long as the Bonds are held in book-entry only form, the operational arrangements then in effect at DTC shall determine the method of selection of particular Bonds within a maturity to be redeemed as well as the notice of redemption to be given. Provided that official notice of redemption has been given in accordance with the Bond Ordinance, the Bonds or portions of Bonds so to be redeemed shall, on the redemption date, become due and payable at the redemption price therein specified, and from and after such date (unless the City shall default in the payment of the redemption price) such Bonds or portions of Bonds shall cease to bear interest. Upon surrender of such Bonds for redemption in accordance with said notice, such Bonds shall be paid by the Bond Registrar at the redemption price. Installments of interest due on or prior to the redemption date shall be payable as provided in the Bond Ordinance for payment of interest.

Option to Purchase

The City has reserved the right to purchase, at any time, for retirement any Bonds offered to it at any price deemed reasonable by the City.

Transfer and Exchange

In the event that the Bonds are no longer held in book-entry form, the Bonds may be transferred or exchanged by Registered Owners upon completion of the assignment form on the Bond(s) in form and substance satisfactory to the Bond Registrar and delivery of the Bond(s) to be exchanged or transferred to the Bond Registrar for cancellation. Upon such surrender and cancellation, the Bond Registrar will authenticate and deliver to the new Registered Owner a new Bond or Bonds of the same date, maturity and interest rate and for the same aggregate principal amount in any authorized denomination. The Bond Registrar is not required to register the transfer or to exchange Bonds during the 15 days preceding any interest payment date or principal payment date on which any such Bond is to be redeemed.

The Bonds are interchangeable for Bonds in any authorized denomination of an equal aggregate principal amount and of the same interest rate and maturity.

Bond Registrar and Paying Agent, Payment of Bonds

The City has adopted the system of registration for the Bonds approved, from time to time, by the State Finance Committee of the State (the "Committee"). Pursuant to chapter 43.80 Revised Code of Washington ("RCW"), the Committee designates one or more fiscal agencies for bonds issued within the State. The State's fiscal agent, currently The Bank of New York, New York, New York, (the "Bond Registrar"), will authenticate the Bonds and act as the paying agent and registrar for the purpose of paying the principal and interest evidenced and represented by the Bonds, recording the purchase and registration, exchange or transfer, and payment of Bonds and performing the other respective obligations of the paying agent and registrar. No resignation or removal of the Bond Registrar shall become effective until a successor has been appointed and has accepted the duties of Bond Registrar. The Insurer shall be furnished with written notice of the resignation or removal of the Bond Registrar and the appointment of any successor thereto other than the appointment of a new State fiscal agent.

In order to meet payment requirement for interest on and principal of the Bonds as the same becomes due and payable, the City will remit money from the City's Water and Sewer Revenue Bond Fund (the "Bond Fund") to the Bond Registrar. See "SECURITY FOR THE BONDS—The Bond Fund" herein. So long as Cede & Co. is the Registered Owner of the Bonds, the principal of and interest on the Bonds are payable by wire transfer to Cede & Co., as nominee for DTC which, in turn, is to remit such amounts to the Direct Participants for subsequent disbursement to the Beneficial Owners. See "BOOK-ENTRY SYSTEM" in Appendix D. In the event that the Bonds are no longer in book-entry form, interest on the Bonds shall be paid by check or draft mailed to the Registered Owners at the addresses for such Registered Owners appearing on the Bond Register on the fifteenth day of the month preceding the interest payment date, or upon the written request of a Registered Owner of more than \$1,000,000 of Bonds (received by the Bond Registrar at least 15 days prior to the applicable payment date), such payment shall be made by the Bond Registrar by wire transfer to the account within the United States designated by the Registered Owner. Principal of the Bonds shall be payable upon presentation and surrender of such Bonds by the Registered Owners at the principal office of the Bond Registrar.

Defeasance

The City has reserved the right to defease the Bonds or any portion of them by providing for their payment. Payment of all or any portion of the Bonds may be provided for by irrevocably pledging and setting aside in a special account cash and/or "Government Obligations" (as such term is defined in chapter 39.53 RCW). Such cash and Government Obligations shall be applied solely for the purpose of paying the principal of the Bonds at maturity and interest thereon as the same shall become due. Such cash and the maturing principal of and interest on such Government Obligations shall be sufficient to pay when due such principal and interest. Within 60 days of any defeasance of Bonds the Bond Registrar shall provide notice of defeasance of Bonds to, among others, registered owners, all in accordance with the Bond Ordinance.

SECURITY FOR THE BONDS

Pledge of Net Revenues

The Bonds are issued on a parity of lien with the City's outstanding Water and Sewer Revenue Bonds, 1993 (the "1993 Bonds"), Water and Sewer Revenue Bonds, 1995 (the "1995 Bonds"), Water and Sewer Revenue Bonds, 1997 (the "1997 Bonds") Water and Sewer Revenue Refunding Bonds, 1998 (the "1998 Bonds"), Water and Sewer Revenue Bonds, 1999 (the "1999 Bonds") (exclusive of the Refunded Bonds), and the Water and Sewer Revenue Refunding Bonds, 2002 (the "2002 Bonds") (see "DEBT INFORMATION" herein). The 1993 Bonds, the 1995 Bonds, the 1997 Bonds, the 1998 Bonds, the 1999 Bonds and the 2002 Bonds are collectively referred to herein as the Outstanding Parity Bonds. The Outstanding Parity Bonds, the Bonds

and any Future Parity Bonds are collectively referred to herein as the "Parity Bonds." For certain purposes herein where noted, the term "Outstanding Parity Bonds" shall not include the 2002 Bonds.

The Bonds and all Outstanding Parity Bonds are, and all Future Parity Bonds, if any, when issued, will be, secured by a lien and charge upon the Revenues of the System, and such lien and charge upon the Revenues is prior and superior to all other charges of any kind and nature whatsoever, except for the payment of Operating Expenses. The Bonds are revenue obligations of the City. Neither the full faith and credit or the taxing power of the City are pledged to the payment of the Bonds. The Bonds are not obligations of the State or any political subdivision thereof other than the City.

Rate Covenant

The City has covenanted in the Bond Ordinance for the benefit of Bond Owners to establish, maintain and collect such rates and charges for the use of the services and facilities of and all commodities sold, furnished or supplied by the System, and shall adjust rates and charges from time to time so that:

- (1) The Revenues collected will at all times be sufficient (a) to pay the Operating Expenses, (b) to pay principal of and interest on the Parity Bonds, as and when the same shall become due and payable, (c) to make adequate provision for the payment of any Term Bonds, (d) to make when due all payments that the City is obligated to make into any Reserve Account and all other payments that the City is obligated to make pursuant to the Bond Ordinance, including payments to any Insurer or the issuer of a Qualified Letter of Credit, and (e) to pay all taxes, assessments or other governmental charges lawfully imposed on the System or the revenue therefrom or payments in lieu thereof and any and all other amounts that the City may now or hereafter become obligated to pay from the Revenues by law or contract and
- (2) Net Revenues in each Fiscal Year will be at least equal to 1.30 times the Average Annual Debt Service (calculated as of December 31 of the preceding calendar year).

By Resolution No. M-2980, the Council affirmed its desire to maintain the System in a sound financial condition and to support the credit rating of the System by maintaining the ratio of Net Revenues to Average Annual Debt Service above a certain level. By such resolution, the Council stated its policy to establish and adjust rates and charges for the System so that Net Revenues in each Fiscal Year will be at least equal to 1.65 times the Average Annual Debt Service calculated as of December 31 of the preceding calendar year. While this policy has been established by Resolution No. M-2980, it is not, and shall not be construed as, a covenant with the owners of any Parity Bonds or other revenue bonds of the System or of any other debt of the City.

By Ordinance No. M-3463, the City established a Coverage Stabilization Account. So long as the Outstanding Parity Bonds (not including the 2002 Bonds) are outstanding, amounts on deposit in this account may not be utilized to meet the requirements of the Rate Covenant described in (1) and (2) above, the requirements set forth in the Bond Ordinance for the issuance of Future Parity Bonds or the policy set by Resolution No. M-2980 described above; however, transfers to or from the Coverage Stabilization Account may be taken into consideration in meeting the City's policy of maintaining Net Revenues at least equal to 1.65 times Average Annual Debt Service as set forth in Resolution No. M-2980. For purposes of calculating coverage of Average Annual Debt Service there must be: (a) added to Net Revenues for any Fiscal Year the amount withdrawn from the Coverage Stabilization Account, and deposited in the General Account, during that Fiscal Year; and (b) subtracted from Net Revenues for any Fiscal Year the amount withdrawn from the General Account and deposited into the Coverage Stabilization Account during that Fiscal Year.

From and after the time when the Outstanding Parity Bonds (not including the 2002 Bonds) no longer remain outstanding, transfers from the Coverage Stabilization Account to the General

Account (described below under "Flow of Funds") shall be included in "Revenues" for purposes of compliance with the requirements of subsections (1) and (2) above under "Rate Covenant," but not for the purposes of meeting the Future Parity Bonds Coverage Test (as hereinafter defined).

Flow of Funds

All Revenues are deposited as collected into the Water and Sewer Revenue Fund (the "Revenue Fund"), which was created by Ordinance No. M-93. There are two accounts within the Revenue Fund: the General Account and the Coverage Stabilization Account.

Money in the Revenue Fund is held separate and apart from all other funds and accounts of the City. Money in the Revenue Fund may be invested in any Permitted Investment. All Revenues paid into the Revenue Fund are to be first credited to the General Account therein and applied as follows:

First, to pay the Operating Expenses and to maintain a balance in the Revenue Fund sufficient in amount to enable the City to continuously meet Operating Expenses on a current basis;

Second, to make all payments required to be made into the Interest Account to pay the interest on any Parity Bonds;

Third, to make all payments to be made into the Principal Account to pay the maturing principal of any Parity Bonds and to make all payments required to be made into the Bond Retirement Account to provide for the mandatory redemption of Term Bonds;

Fourth, to make all payments required to be made into the Reserve Account to secure the payment of the principal of and interest on outstanding Parity Bonds;

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

Sixth, to make all payments required to be made into any revenue bond redemption fund, revenue warrant redemption fund, debt service account, reserve account or bond retirement account created to pay and secure the payment of the principal of and interest on any revenue bonds, or revenue warrants or other revenue obligations of the City having a lien upon the Revenues junior and inferior to the lien thereon for the payment of the principal of and interest on the Parity Bonds; and

Seventh, to retire by redemption or purchase any outstanding water and sewer revenue bonds or other obligation of the City, to make necessary additions, betterments, improvements and repairs to or extensions and replacements of the System, or for any other lawful City purposes.

To the extent that surplus Revenues remain after the payments so required to be made out of the General Account, the City may credit up to the full amount of such surplus to the Coverage Stabilization Account. The Coverage Stabilization Account was created in anticipation of future increases in revenue requirements. Funds in the Coverage Stabilization Account may be transferred to the General Account to accommodate part or all of those future revenue requirement increases.

From and after the date that all Outstanding Parity Bonds (not including the 2002 Bonds) are no longer outstanding, the following provisions with respect to the Coverage Stabilization Account will apply. Pursuant to the Bond Ordinance, the City determined that the maintenance of a Coverage Stabilization Account will even out fluctuations in Net Revenues and help to alleviate the need for short-term rate adjustments. Money in the Coverage Stabilization Account will be transferred as determined from time

to time by the City. The City may make payments into the Coverage Stabilization Account from the General Account at any time. Money in the Coverage Stabilization Account may be withdrawn at any time and used for the purpose for which the Revenues may be used. Amounts withdrawn from the Coverage Stabilization Account shall increase Revenues for the period in which they are withdrawn, and amounts deposited in the Coverage Stabilization Account shall reduce Revenues for the period during which they are deposited. Credits to or from the Coverage Stabilization Account that occur within 90 days after the end of a Fiscal Year may be treated as occurring within such Fiscal Year. Earnings on the Coverage Stabilization Account shall be credited to the General Account.

Moneys in the Coverage Stabilization Account may be used for any lawful purpose, including to make up any deficiencies in the Bond Fund. To the extent required for such deficiencies, moneys in the Coverage Stabilization Account are pledged as additional payments to the Bond Fund.

Additional Covenants

Maintenance and Operation. The City shall at all times maintain, preserve, and keep the properties of the System in good repair, working order and condition and will make all necessary and proper repairs, renewals, replacements, extensions, and betterments thereto, so that at all times the business of the System will be properly conducted.

Payment of Operating Expenses. The City shall maintain sufficient moneys in the Revenue Fund, after providing for the payments from the Revenue Fund into the Bond Fund, to enable the System to meet Operating Expenses on a current basis.

Sale or Disposition of System. The City shall not sell or otherwise dispose of the System in its entirety unless simultaneously with such sale or disposition provision is made for the payment into the Bond Fund of cash or Government Obligations which amounts shall be sufficient, together with interest to be earned thereon, to pay the principal and interest on then outstanding Bonds. The City will not sell or otherwise dispose of any part of the useful operating properties of the System unless such facilities are replaced or provision is made for payment into the Bond Fund of certain amounts as set forth in the Bond Ordinance.

Liens or Encumbrances. The City shall not at any time create or permit to accrue or to exist any lien or other encumbrance or indebtedness upon the System or the Revenues superior to the lien for the payment of the outstanding Bonds.

Insurance. The City shall maintain insurance coverage, to the extent insurance coverage is available at a reasonable cost with responsible insurers, against the risks of direct physical loss, damage to or destruction of the System, or any part thereof, and against accidents, casualties, or negligence. A program to self-insure against certain risks or as to part of the potential liability for certain risks may be included as part of the City's insurance coverage plan.

Books and Accounts. The City shall keep proper books of account in accordance with applicable rules and regulations prescribed by the State. The City shall prepare balance sheets and profit and loss statements showing in reasonable detail the financial condition of the System as of the close of each year. These statements will be available to the owners of the Bonds upon written request.

Additions and Improvements. The City will not expend any of the Revenues derived by it from the operation of the System or the proceeds of any indebtedness payable from the Revenues for any extensions, betterments, or improvements to the System which are not consistent with prudent utility management and which will not properly and advantageously contribute to the conduct of the business of the System in an efficient manner; provided, that to the extent permitted by law, the City may provide commodities, services

or facilities free of charge or at a reduced charge in order to carry out a plan adopted by the Council for conservation of water or to benefit elderly, handicapped or poor persons.

Covenants Regarding Tax-Exempt Status of the Bonds. The City has covenanted that it will not take or permit to be taken on its behalf any action that would adversely affect the exemption from federal income taxation of the interest on the Bonds and will take or require to be taken such acts as may reasonably be within its ability and as may from time to time be required under applicable law to continue the exemption from federal income taxation of the interest on the Bonds.

The Bond Fund

The Bond Fund, which was created by Ordinance No. M-2572, is used solely for the purpose of paying the principal of, premium, if any, and interest on the Parity Bonds and of retiring the Parity Bonds prior to maturity. An Interest Account, a Principal Account, a Reserve Account and a Bond Retirement Account (for the redemption of Term Bonds) have been created in the Bond Fund. All moneys in the Bond Fund are held in trust for the benefit of the owners of all Parity Bonds at the time outstanding equally and ratably and without preference or distinction as between Parity Bonds of different series and maturities. Moneys in the Bond Fund shall be transmitted to the Bond Registrar in amounts sufficient to meet the maturing installments (or mandatory redemption) of principal of and premium, if any, and interest on the Bonds when due.

Reserve Account Requirement

The Bond Ordinance provides for the funding and maintenance of a Reserve Account within the Bond Fund for the payment of debt service on the outstanding Parity Bonds of the System in an amount equal to the lesser of (a) maximum Annual Debt Service on all outstanding Parity Bonds, and (b) 125% of Average Annual Debt Service on all outstanding Parity Bonds; provided however, that the amount required to be deposited with respect to any Future Parity Bonds in order to meet the Reserve Account Requirement shall not exceed 10% of the net proceeds of such Future Parity Bonds. Under the Bond Ordinance, the City is required to meet the Reserve Account Requirement upon the issuance of any Future Parity Bonds. The Bond Ordinance provides that the City may satisfy the Reserve Account Requirement by deposits of cash, by providing a Qualified Letter of Credit, Qualified Insurance, or other equivalent credit facility.

Reserve Account Policies

The City has in place in the Reserve Account Qualified Insurance policies that are sufficient to satisfy the Reserve Account Requirement for the Parity Bonds. The Qualified Insurance policies provide that upon notice from the Paying Agent (as such term is defined in the Qualified Insurance policies) to the Insurers to the effect that insufficient amounts are on deposit in the Principal and Interest Accounts in the Bond Fund to pay the principal of (at maturity or pursuant to mandatory redemption requirements) and interest on the outstanding Parity Bonds, the Insurers will promptly deposit with the Paying Agent an amount sufficient to pay the principal of and interest on the outstanding Parity Bonds then due or the available amount of the Qualified Insurance policy, whichever is less. The available amount of Qualified Insurance policy is the initial face amount of the policy less the amount of any previous deposits by the Insurer with the Paying Agent which have not been reimbursed by the City.

Debt Payment Record

There is no record of default in the payment of principal of or interest on any bonded indebtedness of the City.

Future Parity Bonds

In the Bond Ordinance, the City reserves the right to issue additional bonds payable from the Bond Fund on parity with the Bonds and the Outstanding Parity Bonds (the "Future Parity Bonds") upon compliance with certain conditions, including the following:

- (1) That there is no deficiency in the Bond Fund (including the Reserve Account therein) at the time of issuance.
- (2) In each ordinance authorizing such Future Parity Bonds, provision shall be made for payments into the Reserve Account in accordance with the Bond Ordinance.
- (3) That at the time of the issuance of any Future Parity Bonds, the City shall have on file a certificate from a licensed Professional Utility Consultant, not then employed by the City except for the purpose of giving such certificate, showing that the Net Revenues received during the most recent 12-month period for which financial statements are available within the 24 months preceding the date of delivery of such Bonds equals at least 1.30 times the average Annual Debt Service each calendar year or Fiscal Year thereafter on the then outstanding Parity Bonds and that the Adjusted Net Revenues to be received each calendar year or fiscal year thereafter, will equal at least 1.30 times the Average Annual Debt Service each such calendar year or Fiscal Year, on the Parity Bonds that shall be outstanding in each such calendar year or Fiscal Year (including the Future Parity Bonds proposed to be issued) ("Future Parity Bonds Coverage Test").

The "Adjusted Net Revenues" shall be the Net Revenues for a period of any 12 consecutive months out of the 24 months immediately preceding the date of delivery of such proposed Future Parity Bonds, as adjusted to take into consideration changes in Net Revenues estimated to occur under one or more of the following conditions for each year after such delivery for so long as any Parity Bonds, including the Future Parity Bonds proposed to be issued, shall be outstanding:

- (a) Any increase or decrease in Net Revenues which would result if any change in rates and charges adopted by the Council prior to the date of such certificate and subsequent to the beginning of such 12-month period had been in force during the full 12-month period;
- (b) The additional Net Revenues from any rate increases which have been approved by ordinance of the Council but which are not then in effect;
- (c) Any increase or decrease in Net Revenues estimated by such Professional Utility Consultant to result from any additions, betterments, and improvements to and extensions of any facilities of the System which (i) became fully operational during such 12-month period, (ii) were under construction at the time of such certificate, or (iii) will be constructed from the proceeds of the Future Parity Bonds to be issued;
- (d) The additional Net Revenues which would have been received if any customers added to the System during such 12-month period were customers for the entire period; and
- (e) The additional Net Revenues that may be derived by the City from any users of the System with whom the City has entered into a contract for utility services to be furnished, which revenues have not otherwise been included in Net Revenues.

The following provision shall be effective from and after the date on which all Outstanding Parity Bonds (not including the 2002 Bonds) are no longer outstanding. In the event that the Net Revenues

of the City for the 12-month period within the preceding 24 months based upon the financial statements of the City are sufficient, without any adjustment, to demonstrate compliance with the Future Parity Bond Coverage Test, then the certificate described above may be delivered by the City Manager in lieu of a certificate from a Professional Utility Consultant. In such case, the certificate of the City Manager shall be conclusive and the only evidence required to show compliance with such provisions and requirements.

If Future Parity Bonds are to be issued for the purpose of refunding at or prior to their maturity any part of or all of the then outstanding Parity Bonds and the issuance of such refunding Future Parity Bonds results in debt service savings and does not require an increase of more than \$5,000 in any year for principal and interest on such refunding Future Parity Bonds, such certificate is not required.

The City reserves the right to issue revenue bonds or other obligations, which are a charge upon the Revenues of the System junior or inferior to that of the Parity Bonds.

Events of Default and Remedies

Pursuant to the Bond Ordinance, the City covenanted and agreed with the 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 certain events shall constitute "Events of Default" under the Bond Ordinance. Such Events of Default concern payment of principal of, premium, if any, and interest on the Bonds, compliance with the covenants contained in the Bond Ordinance, sale or transfer of System properties other than as permitted under the Bond Ordinance, bankruptcy and inability to pay the debts of the System. Provided that the Bond Insurance Policy with respect to the Bonds is in effect, upon the occurrence and continuation of an Event of Default, the Insurer shall be entitled to exercise on behalf of the owners of all of the Bonds, any of the remedies provided in the Bond Ordinance and, for as long as the Insurer is not in default of its obligations under the Bond Insurance Policy, the Insurer shall be the only party entitled to exercise the remedies provided in the Bond Ordinance.

The provisions described in this paragraph apply only so long as the Outstanding Parity Bonds (not including the 2002 Bonds) remain outstanding. During the continuance of an Event of Default or following the occurrence of an event that, with the passage of time and the giving of the notice required by the Bond Ordinance would become an Event of Default and for so long as the Outstanding Parity Bonds (not including the 2002 Bonds) remain outstanding, the owners of Parity Bonds representing twenty percent (20%) in principal amount of the Parity Bonds then outstanding may call a bondowners meeting for the purpose of electing a committee to act on behalf of all owners of Parity Bonds (the "Bondowners Committee"). The members of the Bondowners Committee elected by the Parity Bondowners in the manner provided in the Bond Ordinance, and their successors, as a committee shall be trustees for the owners of all the Bonds then outstanding, and are empowered to exercise in the name of the Bondowners Committee as trustee, all the rights and powers conferred on the Bondowners Committee in the ordinances authorizing the issuance of the Outstanding Parity Bonds.

Upon the occurrence of an Event of Default with respect to the Bonds and so long as such Event of Default shall not have been remedied, a Registered Owners' Trustee may be appointed for the Bonds by the owners of 51% in principal amount of the Outstanding Bonds by an instrument or concurrent instruments in writing signed and acknowledged by such Registered Owners or by their attorneys-in-fact duly authorized and delivered to such Registered Owners' Trustee, and notification thereof being given to the City. For so long as the Bonds are held in book-entry only form, communications with the owners shall be made with the securities depository that is the Registered Owner of the Bonds and communications with (and obtaining consents from) Beneficial Owners shall be made in accordance with the operational procedures of the securities depository that is the Registered Owner of the Bonds. The Registered Owners' Trustee appointed in the manner provided in the Bond Ordinance, and each successor thereto, shall be a trustee for the owners

of all the Bonds for which such appointment is made and is empowered to exercise all the rights and powers conferred on the Registered Owners' Trustee in the Bond Ordinance.

A Registered Owners' Trustee may upon the happening of an Event of Default and during the continuation thereof, take such steps and institute such suits, actions or other proceedings in its own name, or as trustee, all as it may deem appropriate for the protection and enforcement of the rights of Registered Owners to collect any amounts due and owing the City, or to obtain other appropriate relief, and may enforce the specific performance of any covenant, agreement or condition contained in the Bond Ordinance.

No owner of any one or more of the Bonds shall have any right to institute any action, suit or proceedings at law or in equity for the enforcement of the same, unless an Event of Default shall have happened and be continuing, and unless no Registered Owners' Trustee has been appointed, but any remedy authorized in the Bond Ordinance to be exercised by a Registered Owners' Trustee may be exercised individually by any Registered Owner, in his own name and on his own behalf or for the benefit of all Registered Owners, in the event no Registered Owners' Trustee has been appointed, or with the consent of the Registered Owners' Trustee if such Registered Owners' Trustee has been appointed; provided however, that nothing in the Bond Ordinance or in the Bonds shall affect or impair the obligation of the City which is absolute and unconditional, to pay from Net Revenues the principal of and interest on said Bonds to the respective owners thereof at the respective due dates therein specified, or affect or impair the right of action, which is absolute and unconditional, of such owners to enforce such payments.

BOND INSURANCE

Concurrently with the issuance of the Bonds, Financial Guaranty Insurance Company (the "Bond Insurer") will issue its Municipal Bond New Issue Insurance Policy (the "Bond Insurance Policy") for the Bonds. The Bond Insurance Policy unconditionally guarantees the payment of that portion of the principal or accreted value (if applicable) of and interest on the Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the issuer of the Bonds (the "City"). The Bond Insurer will make such payments to U.S. Bank Trust National Association, or its successor as its agent (the "Fiscal Agent"), on the later of the date on which such principal or accreted value (if applicable) and interest is due or on the business day next following the day on which the Bond Insurer shall have received telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from an owner of Bonds or the Paying Agent of the nonpayment of such amount by the City. The Fiscal Agent will disburse such amount due on any Bond to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner's right to receive payment of the principal, accreted value or interest (as applicable) due for payment and evidence, including any appropriate instruments of assignment, that all of such owner's rights to payment of such principal, accreted value or interest (as applicable) shall be vested in the Bond Insurer. The term "nonpayment" in respect of a Bond includes any payment of principal, accreted value or interest (as applicable) made to an owner of a Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

The Bond Insurance Policy is non-cancellable and the premium will be fully paid at the time of delivery of the Bonds. The Bond Insurance Policy covers failure to pay principal or accreted value (if applicable) of the Bonds on their respective stated maturity dates or dates on which the same shall have been duly called for mandatory sinking fund redemption, and not on any other date on which the Bonds may have been otherwise called for redemption, accelerated or advanced in maturity, and covers the failure to pay an installment of interest on the stated date for its payment.

Generally, in connection with its insurance of an issue of municipal securities, the Bond Insurer requires, among other things, (i) that it be granted the power to exercise any rights granted to the holders of such securities upon the occurrence of an event of default, without the consent of such holders, and that such

holders may not exercise such rights without the Bond Insurer's consent, in each case so long as the Bond Insurer has not failed to comply with its payment obligations under its insurance policy; and (ii) that any amendment or supplement to or other modification of the principal legal documents be subject to the Bond Insurer's consent. The specific rights, if any, granted to the Bond Insurer in connection with its insurance of the Bonds are set forth in the description of the principal legal documents appearing elsewhere in this Official Statement. Reference should be made as well to such description for a discussion of the circumstances, if any, under which the City is required to provide additional or substitute credit enhancement, and related matters.

This Official Statement contains a section regarding the ratings assigned to the Bonds and reference should be made to such section for a discussion of such ratings and the basis for their assignment to the Bonds. Reference should be made to the description of the City for a discussion of the ratings, if any, assigned to such entity's outstanding parity debt that is not secured by credit enhancement.

The Bond Insurance Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Guaranty is a monoline financial guaranty insurer domiciled in the State of New York and subject to regulation by the State of New York Insurance Department. As of September 30, 2003, the total capital and surplus of Financial Guaranty was approximately \$999 million. Financial Guaranty prepares financial statements on the basis of both statutory accounting principles and generally accepted accounting principles. Copies of such financial statements may be obtained by writing to Financial Guaranty at 125 Park Avenue, New York, New York 10017, Attention: Communications Department (telephone number: 212-312-3000) or to the New York State Insurance Department at 25 Beaver Street, New York, New York 10004-2319, Attention: Financial Condition Property/Casualty Bureau (telephone number: 212-480-5187).

Financial Guaranty is a wholly-owned subsidiary of FGIC Corporation. On December 18, 2003, an investor group consisting of The PMI Group, Inc. ("PMI"), The Blackstone Group L.P. ("Blackstone"), The Cypress Group L.L.C. ("Cypress") and CIVC Partners L.P. ("CIVC") acquired approximately 95% of the common stock of FGIC Corporation (the "Common Stock") from General Electric Capital Corporation ("GE Capital"), a subsidiary of General Electric Company ("GE"). PMI, Blackstone, Cypress and CIVC acquired approximately 42%, 23%, 23% and 7%, respectively, of the Common Stock. Prior to the closing on December 18, 2003, Financial Guaranty paid GE Capital approximately \$284.3 million in cash dividends. GE retained direct or indirect ownership of approximately 5% of FGIC Corporation's common stock.

THE SYSTEM

The City owns, maintains, and operates a combined water supply and distribution, sewage collection and treatment, and stormwater system.

Water System

The City supplies water to virtually all residents within the City limits and to a portion of the population outside the City within Clark County (the "County"). The total area served is 69 square miles with 44 square miles inside City limits.

The City purchased the water utility from a private company in 1937. Since that time, the system has grown to become Washington's fourth largest with 866 miles of distribution pipe, five elevated reservoirs, five ground level reservoirs, 40 wells in nine well fields, 13 booster stations, and four water purification treatment plants. City wells tap the Orchards, the Columbia Alluvium and the Sandy River Mudstone aquifers. Wells vary in depth from 100 feet to over 1,000 feet and have a combined capacity of about 84 million gallons per

day ("mgd"). Total reservoir storage amounts to 24.5 million gallons for fire protection and peak demand. Annual production currently exceeds 9.5 billion gallons. For reliability of service, major water production facilities are interconnected with large diameter transmission mains and booster pumps.

Largest Customers of the Water System
For the year ended December 31, 2002

Customer	Product/Service	2002 Revenue	% of 2002 Water System Revenues
Frito Lay	Food Processing	\$ 402,647 ⁽¹⁾	1.83%
SEH America	Manufacturing	273,344	1.25%
NW Packing	Food Processing	119,662	0.55%
Airco / BOC Environmental	Commercial Gases	95,999	0.44%
Siemens	Manufacturing	56,672	0.26%
Veteran's Administration	Medical Care	43,266	0.20%
St. Joseph's Hospital	Medical Care	45,620	0.21%
Greenway Terrace	Housing	40,326	0.18%
Creekside Mobile Estates	Housing	35,125	0.16%
Bemis	Manufacturing	<u>30,791</u>	<u>0.14%</u>
Total		1,143,452	5.21%
All Others		<u>20,800,880</u>	<u>94.79%</u>
2002 Water Revenue		\$21,944,322	100.00%

⁽¹⁾ Amount excludes credit. The City and Frito Lay entered into an agreement in June 2002 providing Frito Lay with an annual credit against its water bill in exchange for certain capital contributions to the utility, plant investments and minimum payroll levels. The credit amount varies depending on the billed amount with a not to exceed amount of \$300,000.

Source: City of Vancouver

Water Rates and Charges

As of January 1, 2004, about 28 percent of the utility's customers (17,439 accounts) are located outside the City. A total population of approximately 216,800 residents live within the service area. Most of the water users (95 percent), both inside and outside the City, are residential customers. The following table shows typical monthly rates and charges for residential water service effective January 1, 2004. The single family charges assume a 5/8 inch meter while the multifamily charges assume a 12-unit building with a 1½ inch meter.

<u>Base Charge</u>	<u>Monthly Charge</u>
Inside City Limits	
Single Family	\$ 4.80
Multi-Family	18.05
Outside City Limits	
Single Family	7.20
Multi-Family	27.10
Volume charge per 100 cubic feet	
Inside City Limits	
Single Family	1.33
Multi-Family	1.15
Outside City Limits	
Single Family	2.00
Multi-Family	1.73

Source: City of Vancouver

Historical Water Operating Statistics

	Historical Water Operating Statistics				
	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
<u>Water Customers</u>					
Residential					
Inside City	41,674	40,972	40,495	39,654	38,775
Outside City	16,948	16,192	15,280	14,575	13,702
Commercial/Industrial/Govt.					
Inside City	2,592	2,472	2,427	2,385	2,332
Outside City	<u>491</u>	<u>476</u>	<u>463</u>	<u>442</u>	<u>404</u>
Total Water Connections	61,705	60,112	58,665	57,056	55,213
<u>Water Use</u>					
Minimum (mgd)	15.5	16.7	16.6	16.1	17.6
Maximum (mgd)	53.0	45.1	50.2	44.8	50.2
Annual (million gallons)	9,489	9,150	9,520	9,294	9,330
<u>Water System</u>					
Miles of Supply and Distribution Mains	866	850	827	810	791
Hydrants in Use	5,720	5,537	5,335	5,110	4,893
Wells	40	40	40	40	40
Pumping Capacity (mgd)	84.6	84.6	84.6	84.6	84.6
Storage (mg)	24.5	24.5	24.5	24.5	24.5

Source: City of Vancouver

Sewer System

The City's first sewage treatment plant was built in 1949. Since then, the City has committed itself to providing sewer and water service to a service area extending beyond the City limits to the east. In 1967, the City began construction of improvements to the sanitary sewer system in accordance with its comprehensive plan, which provides for extending major sewer trunks into enlarged drainage areas surrounding the City.

With the City's Westside and Marine Park Wastewater Treatment plants, and the related system of interceptor sewers, the City provides sanitary sewer service in a drainage basin that encompasses more than the area within the present corporate City limits. The service area extends east to the area that is serviced by the Clark County Public Sewer District No. 1. The City also operates a 90 million-gallon industrial waste treatment lagoon near the Westside Treatment Plant to treat industrial effluent for large food and beverage processors. The Westside Treatment Plant also includes a sludge incinerator.

These two wastewater facilities operate within the limits established by the two National Pollutant Discharge Elimination System Waste Discharge Permits ("NPDES") for secondary treatment. There have been no operating violations for either facility.

The capacities of the treatment plants as of December 1, 2003, are as follows:

<u>Facility</u>	<u>Current Flow</u>	<u>Permitted Capacity</u>	<u>Design Capacity</u>
Westside Secondary Treatment Plant	9.6 mgd	21.3 mgd	21.3 mgd
Marine Park Secondary Treatment Plant	9.8 mgd	16.1 mgd	16.1 mgd
Industrial Wastewater Pretreatment Lagoon	1.8 mgd	3.2 mgd	3.2 mgd

Source: City of Vancouver

All of the City's wastewater treatment facilities (the Westside Secondary Treatment Plant, Marine Park Secondary Treatment Plant, and the Industrial Wastewater Pretreatment Lagoon) are operated and maintained under a contract with U.S. Filter OS. The current operations contract with U.S. Filter OS extends to December 31, 2005.

**Largest Customers of the Sewer System
For the year ended December 31, 2002**

Customer	Product/Service	2002 Revenue	% of 2002 Sewer System Revenue
SEH America	Manufacturing	\$ 1,750,320	9.04%
Hazel Dell Sewer District	Public Utility	654,536	3.38%
Great Western Malting	Grain Processing	299,484	1.55%
Frito Lay	Food Processing	277,412	1.43%
Boomsnub/Airco	Manufacturing	158,786	0.82%
St. Joseph's Hospital	Medical Care	92,651	0.48%
URS Greiner Woodward Clyde	Manufacturing	80,750	0.42%
NW Packing	Food Processing	80,471	0.42%
Bemis Company	Manufacturing	61,280	0.32%
Veteran's Administration	Medical Care	<u>58,752</u>	<u>0.30%</u>
Total		3,514,442	18.15%
All Others		<u>15,851,894</u>	<u>81.85%</u>
2002 Sewer Revenue		\$19,366,336	100.00%

Source: City of Vancouver

Sewer Rates and Charges

The following are representative residential sewer rates and charges effective January 1, 2004. The City has different rates for customers inside and outside the City limits. The multi-family rates reflect a per unit charge for a 12-unit structure.

	<u>Monthly Charge</u>
Inside City	
Single Family	\$25.48
Multi-Family	21.04
Outside City	
Single Family	38.50
Multi-Family	31.02

Source: City of Vancouver

Historical Sewer Customers

	Historical Sewer Customers				
	2002	2001	2000	1999	1998
Residential					
Inside City	36,483	35,568	35,284	34,402	33,541
Outside City	<u>10,072</u>	<u>9,503</u>	<u>8,849</u>	<u>8,328</u>	<u>7,594</u>
Total Residential	46,555	45,071	44,133	42,730	41,135
Commercial/Industrial/Govt.	<u>2,144</u>	<u>2,084</u>	<u>2,043</u>	<u>2,009</u>	<u>1,952</u>
Total Sewer Customers	48,699	47,155	46,176	44,739	43,087

Source: City of Vancouver

Rate Study

The City engaged Financial Consulting Solutions Group, Inc. of Redmond, Washington ("FCSG") to perform a water and sewer rate study, which was completed in January 2001. The study included an analysis of revenue requirements, cost allocations, customer classifications and system development charges. In October 2001, the Council adopted the recommended rate and system development charge increases included in the study for 2001 and 2002.

FCSG found that, at the time of the study, the water and sewer revenues did not reflect each utility's respective shares of System costs. Specifically, the City's water rates generate more than the water required revenue while the sewer rates do not generate adequate revenue, especially in light of substantial new and planned investments in sewer facilities. However, the combined structure of the two utilities allows the City to take advantage of the total rate revenues for purposes of meeting coverage requirements on outstanding debt.

FCSG is in the process of completing a follow-up to their 2001 rate study. The follow-up study's preliminary recommendations affirmed the 2001 recommendation for 10% increases in sewer rates through 2006 with a 4% increase in sewer rates recommended for 2007. FCSG's preliminary recommendation is for no increases in water rates through 2010. System staff expect FCSG's recommendations to be presented to the City Council in the spring of 2004.

According to System staff, the City will phase in revisions to the rate structure that will, over time, shift the proportion of revenues produced by water and sewer rates to one that reflects each utility's operating and capital costs, primarily by increasing sewer rates over the next six years by an average of 10 percent each year and keeping water rates largely flat and by imposing system development charges that are more equitable both with respect to existing customers and the separate utility services. While the utilities will continue to be a combined entity for accounting purposes (and with respect to Parity Bond covenants), they will be managed on a separate basis to provide a clearer picture of the factors driving revenue requirements, and ultimately, more equitable rates.

Labor Contracts

The City's water and sewer utility has approximately 157 employees. As of the end of 2003, 115 of those employees were represented by a collective bargaining unit covered by a collective bargaining agreement. The number of employees in each collective bargaining unit is shown in the table below along with the expiration date of the respective contracts. System staff indicate that there are no significant issues that are pending resolution related to the collective bargaining agreements.

<u>Union</u>	<u>Number of Employees</u>	<u>Contract Expiration</u>
OPEIU	56	12/31/2005
AFSCME	59	12/31/2005

Water and Sewer System - Historical Operating Results

The table below details the historic operating results of the System and debt service coverage presented both on an actual basis and on an average annual debt service basis in compliance with Resolution M-2980 of the City described above under the heading "SECURITY FOR THE BONDS – Rate Covenant."

**Water and Sewer System
Historical Operating Results**
(Years Ended December 31)

	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Operating Revenues					
Charges for Services	\$ 44,883,802	\$ 43,588,184	\$ 42,035,650	\$ 38,863,951	\$ 34,597,999
Rents and Royalties	363,731	473,976	456,079	0	0
Miscellaneous	<u>716,197</u>	<u>699,898</u>	<u>1,485,443</u>	<u>424,226</u>	<u>402,654</u>
Total Operating Revenues	\$ 45,963,730	\$ 44,762,058	\$ 43,977,172	\$ 39,288,177	\$ 35,000,653
Operating Expenses					
Personnel Services	\$ 9,560,643	\$ 9,812,859	\$ 8,389,627	\$ 7,501,450	\$ 6,298,370
Supplies and Contractual Services	14,558,539	13,697,854	13,109,618	11,917,479	13,272,690
Interfund Services	4,929,599	5,326,037	4,719,335	4,617,361	3,926,533
Depreciation	<u>11,200,398</u>	<u>13,740,405</u>	<u>9,122,018</u>	<u>7,504,635</u>	<u>7,322,784</u>
Total Operating Expenses	\$ 46,160,108	\$ 48,108,902	\$ 40,687,495	\$ 36,698,353	\$ 35,388,196
Operating Income (Loss)	\$ (196,378)	\$ (3,346,844)	\$ 3,289,677	\$ 2,589,824	\$ (387,543)
Non-Operating Revenues (Expenses)					
Interest on Investments	2,675,859	4,948,511	5,487,641	3,061,498	2,779,487
State and federal grants	24,642	67,287	7,649	5,232	15,554
Charges for service	0	0	0	509,556	482,203
Interest and fiscal charges	(8,941,906)	(6,711,394)	(6,243,035)	(7,311,300)	(6,551,953)
Rents and royalties	0	0	0	435,225	353,521
Gain (loss) on disposal of assets	(508)	10,965	0	(892,377)	(47,763)
Miscellaneous revenue (expense)	<u>3,797,220</u>	<u>782,007</u>	<u>391,979</u>	<u>(424,845)</u>	<u>652,867</u>
Total Non-Operating Revenues (expenses)	\$ (2,444,693)	\$ (902,624)	\$ (355,766)	\$ (4,617,011)	\$ (473,155)
Income (loss) before contributions and transfers	(2,641,071)	(4,249,468)	2,933,911	(2,027,187)	(860,698)
Subtotal Available for Debt Service	(2,641,071)	(4,249,468)	2,933,911	(2,027,187)	(860,698)
Adjustments:					
Interest and Fiscal Charges	8,941,906	6,711,394	6,243,035	7,311,300	6,551,953
Depreciation Expense	11,200,398	13,740,405	9,122,018	7,504,635	7,322,784
Systems Development Charges	8,085,138	5,667,647	7,613,302	7,791,182	6,831,466
City Utility Tax	5,905,447	5,531,747	5,294,114	5,107,770	4,567,819
Balance Available for Debt Service	\$ 31,491,818	\$ 27,401,725	\$ 31,206,380	\$ 25,687,700	\$ 24,413,324
Actual Annual Debt Service	14,331,942	13,708,766	11,543,856	9,520,937	9,329,268
Actual Annual Debt Coverage Ratio	2.20	2.00	2.70	2.44	2.77
Average Annual Debt Service Coverage Test					
Balance Available for Debt Service	\$ 31,491,818	\$ 27,401,725	\$ 31,206,380	\$ 25,687,700	\$ 24,413,324
Average Annual Debt Service ⁽¹⁾	13,609,496	13,615,011	13,506,003	11,410,632	11,352,739
Average Annual Debt Service Coverage	2.31	2.01	2.31	2.25	2.15

(1) Average annual debt service calculated as of December 31 of the preceding calendar year.

Source: City of Vancouver

DEBT INFORMATION

Description of Outstanding Parity Bonds

Following the issuance of the Bonds, the System will have the following Parity Bonds outstanding:

Series	Authorizing Ordinance	Original Principal Amount	Outstanding Principal Amount*
1993	M-3072	\$38,000,000	\$14,955,000
1995	M-3199	33,000,000	2,955,000
1997	M-3315	63,100,000	54,185,000
1998	M-3390	27,260,000	26,850,000
1999	M-3463	33,075,000	6,575,000
2002	M-3605	11,310,000	11,310,000
2004	M-	<u>26,310,000**</u>	
Total		\$232,055,000	\$116,830,000

* As of December 31, 2003, excludes the Refunded Bonds.

** Preliminary, subject to change.

Schedule of System Debt Service

Schedule of System Debt Service

Year ⁽¹⁾	<u>Outstanding Bonds⁽²⁾</u>		<u>The Bonds*</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
2004	\$7,225,000	\$5,541,348	\$175,000	\$	\$
2005	7,590,000	5,182,141	125,000		
2006	7,965,000	4,807,410	130,000		
2007	8,320,000	4,451,316	135,000		
2008	8,695,000	4,073,409	135,000		
2009	9,205,000	3,638,910	140,000		
2010	8,340,000	3,205,406	1,470,000		
2011	8,770,000	2,781,061	1,525,000		
2012	9,210,000	2,330,806	1,595,000		
2013	10,550,000	1,832,929	800,000		
2014	6,735,000	1,401,020	2,595,000		
2015	7,070,000	1,059,488	2,740,000		
2016	7,435,000	697,006	2,875,000		
2017	4,735,000	386,006	2,160,000		
2018	<u>4,985,000</u>	<u>130,856</u>	2,280,000		
2019			3,620,000		
2020			<u>3,810,000</u>		
Totals	<u>\$116,830,000</u>	<u>\$41,519,112</u>	<u>\$26,310,000</u>		

(1) Based on Fiscal Years ending December 31, includes all payments made and to be made in 2004.

(2) Includes 1993 Bonds, 1995 Bonds, 1997 Bonds, 1998 Bonds, 1999 Bonds and 2002 Bonds; excludes the Refunded Bonds.

* Preliminary, subject to change.

Capital Improvement Program and Additional System Parity Bonds

The City has developed a six-year capital improvement program for both its water and sewer utilities. The table below represents budgeted and funded projects. The City plans to fund these projects using current capital reserves and System revenues. Detailed within the City's current budget, the remaining portion of the six-year capital improvement program is summarized below:

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>Totals</u>
Water System Projects	\$2,115,000	\$2,000,000	\$3,000,000	\$3,000,000	\$2,000,000	\$12,115,000
Sewer System Projects	3,345,000	0	0	0	0	3,345,000
Utility Operating Projects	<u>5,363,412</u>	<u>1,500,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>6,863,412</u>
Totals	\$10,823,412	\$3,500,000	\$3,000,000	\$3,000,000	\$2,000,000	\$22,323,412

Source: City of Vancouver

CITY OF VANCOUVER

The City, which was incorporated in 1857, adopted the Council-Manager form of government in 1952 with a mayor and six member council (the "Council") elected by popular vote. The Mayor appoints the City Manager (with majority approval of the Council) to provide administrative direction for the City. The City provides services per its charter. The City operates its own Police, Fire, Park and Recreation, and Public Works Departments (which includes the System and a solid waste utility). The City lies on the north bank of the Columbia River, directly across from Portland, Oregon on Interstate 5, 100 miles inland from the Pacific Ocean. The City is a commercial seaport and is the County seat. As of April, 2003, Vancouver ranked fourth in size among Washington cities in terms of population.

Principal City Officers

Current members of the Council are:

<u>Member</u>	<u>Position</u>	<u>Term Expires</u>
Royce E. Pollard	Mayor	12/31/2005
Jeanne Harris	Council Member	12/31/2005
Pat Jollota	Council Member	12/31/2005
Tim Leavitt	Council Member	12/31/2007
Larry Smith	Council Member	12/31/2007
Jeanne Stewart	Council Member	12/31/2005
Dan Tonkovich	Council Member	12/31/2007

Royce E. Pollard, Mayor. Royce Pollard became mayor of the City on January 1, 1996. After a 27 year career in the United States Army, he retired as Command of Vancouver Barracks in 1989 and immediately began his political career as a Council member.

Mayor Pollard is a native of Burlington, Vermont, and a graduate of the University of Alabama. He currently serves as a member of the Southwest Washington Regional Transportation Council, chair of the Vancouver Fire and Police Pension Boards, member of the Vietnam Veterans of America, member of the American Legion Post # 14, member of 40 et 8, and member of the Columbia River Chapter of Retired Officers Association.

Pat McDonnell, City Manager. Pat McDonnell was approved by the Council as City Manager in September 2000. He has spent 28 years in public administration. Most recently, he was Assistant County Administrator for the County from June 1987 until February 1991 at which time he was appointed as Clark County

Administrator. He served in that position until March 1998 when he was appointed as Vancouver Deputy City Manager, the position he held until his appointment as City Manager.

A native of Minnesota, Mr. McDonnell holds both a BS in business administration and a MA in public administration from Minnesota State University. He is a member of the Executive Board of the Columbia River Economic Development Council (CREDC), a board member of the American Red Cross and a member of the Washington State University-Vancouver Advisory Council. Professional affiliations include membership in the Washington Association of City/County Administrators, International City Managers Association and Rotary Club of Vancouver.

Paul N. Lewis, Financial & Management Services Manager/City Clerk. Mr. Lewis joined the City in January 1999 after nearly five years in the Clark County Auditor's Office. The Financial & Management Services Department is responsible for accounting, accounts payable, payroll, accounts receivable, internal audit, treasury, budget, and management information systems. Prior to working in local government in Clark County and Vancouver, Mr. Lewis was a management consultant with Deloitte & Touche in their state and local government consulting practice. He has a BA in economics from Carleton College and an MBA in public policy and management from the University of Pennsylvania.

Carrie Lewellen, Treasurer. Carrie Lewellen was appointed by the City as Treasurer in March 2002. Prior to the appointment, she worked for Clark County in the Treasurer's Office for 14 years. She has a BA in business management from the Evergreen State College in the State of Washington, and has held the Certified Cash Manager designation from the Association for Financial Professionals since 1996.

Linda Gellings, Accounting Manager. Linda Gellings joined the City in September 1999. Linda was previously employed as an auditor with the Washington State Auditor's Office for over 10 years where she worked with state and local governmental accounting and auditing. Linda graduated from the University of Idaho in 1986 with a BS in Business Administration with a Major in Accounting. Linda is also a Certified Public Accountant in the State of Washington.

Ted Gathe, City Attorney. Ted H. Gathe has been the City Attorney for Vancouver, Washington since 1994. Prior to that time, he was the City's Chief Assistant City Attorney. He has a BA with honors from Claremont McKenna College and received his JD from the University of Idaho. While in private practice, he concentrated in the areas of real estate and land use and has served as a land use hearings officer as well as a city planning commissioner. Mr. Gathe is active in state and national municipal attorneys associations and currently serves as a member of the board of directors of the State Municipal Research Services Center.

General Information

The City prepares budgets in accordance with chapter 35.33 RCW. As background to the process, the City prepares a five year financial forecast of general operations. Biennial calendar year budgets are adopted by the Council for funds providing customary government services. Long-term, project-oriented budgets are adopted as required and amended as additional appropriations are needed. Special assessment and certain custodial agency funds are not budgeted. Within the constraint of the total budget, a change in appropriations within a fund may be authorized by the City Manager. All budgets are accounted for on a line-item basis with control at the object summary total level. Estimated purchase order amounts are encumbered prior to the release of the order to the vendor. Open encumbrances lapse at year-end and must be reappropriated or absorbed in the next year's operating budget.

Cities and counties of the State must comply with the Budgeting, Accounting, and Reporting System ("BARS") prescribed by the Office of the State Auditor as authorized under RCW 43.09.230. State laws also provide for annual independent audits by the Office of the State Auditor and require timely submission of annual financial reports to the State for review. The financial system of the City incorporates a system of

financial administrative controls that ensure the safeguarding of assets and the reliability of financial reports and consequently are designed to provide reasonable assurance that transactions are executed in accordance with management authorization, recorded in conformity with Generally Accepted Accounting Principals ("GAAP") as applicable to governmental entities, that there exists accountability of and control over assets and obligations, and that sufficient reporting and review exists to provide adequate information for analysis and comparability of data. The City implemented early Governmental Accounting Standards Statement 34, *Basic Financial Statements—and Management Discussion and Analysis—for Local Governments* in 2001. Internal control is an area of audit by the State Auditor, as well, and City management receives and takes action upon recommendations made by the State Auditor. The City's financial statements are subject to annual audit by the State Auditor. The last audit covered the year ending December 31, 2002. The report thereon contained an unqualified opinion regarding the City's 2002 financial statements. Copies of the State Auditor's Report may be obtained by contacting the Office of State Auditor in Olympia, Washington, or at <http://www.sao.wa.gov/Reports/auditfinding/AuditResult.asp?f=main&opt=1>. **Neither the information on the website of the State Auditor, nor any links from that website, is part of this Official Statement, and such information cannot be relied upon to be accurate as of the date of this Official Statement, nor should any such information be relied upon to make investment decisions regarding the Bonds.**

Pension Fund

The City and its employees contribute to two mandatory municipal employee retirement systems administered by the State. The Public Employees Retirement System ("PERS") is mandatory for all non-uniformed regular employees and effective December 31, 2003 required a 1.40% of payroll contribution from the City for PERS Plan I and 1.40% for PERS Plan II, and 1.40% for the PERS Plan III. In 2003, the City contributed a total of \$506,927 to these three plans and covered 729 employees. The Law Enforcement Officers and Firefighters ("LEOFF") Retirement Plan likewise is mandatory for all uniformed fire and police employees who were active or hired on or after March 1, 1970. Effective December 31, 2003, the City's contribution rates were 0.22% of payroll for LEOFF Plan I and 3.25% for LEOFF Plan II depending upon an employee's hire date. During 2003, the City contributed a total of \$704,082 toward both plans for 345 employees.

The City also administers a Firefighters' Pension Fund and Police Officers' Pension Fund for employees hired prior to March 1, 1970. These funds provide full pension and medical benefits for those retired prior to March 1, 1970, and partial pension and full medical benefits for those hired prior to March 1, 1970, but retiring thereafter. The latest actuarial study for the Firefighters' Pension Fund (January 2003) determined an actuarial deficiency of \$3,240,000. Contributions are being made annually to the Firefighters' Pension Fund on a 13-year funding schedule which will end in the year 2010. The 2003 actuarial deficiency determined for the Police Officers' Pension Fund was \$3,292,000. The actuarial study relating to the Police Pension Fund has a different statistical profile than for the Firefighters' Pension Fund. Future policy pension payouts stay flat, not increasing to a peak as future fire pension payouts do. It thus appears that the City can safely use a pay-as-you-go policy in the Police Pension Fund and not increase its actuarial deficiency.

Insurance

During 1977, the City became a qualified self-insurer for workers' compensation as an alternative to the State program. In 1978, all local governments within the State were brought under the State unemployment tax coverage, which also allowed qualified cities to become self-insured. The City qualified and became self-insured in 1978. The City established a Self-Insurance Internal Service Fund to account for and finance its insured and uninsured risks of loss. The fund addresses claims in four areas of risk that include general liability, worker's compensation, unemployment, and property. Commercial insurance is purchased to handle risk of loss. In the past three years, none of the settlements exceeded the City's purchased insurance coverage. Information on each area is as follows:

General Liability. The Self-Insurance costs for liability claims in 2002 totaled \$370,564. Historically, there have been approximately 100 claims filed against the City for any given year. There were 141 claims filed for 2002. The fund pays the majority of claims involving general liability but has various liability coverage's through specific policies. Currently, the City's specific policies include airpark liability at a cost of \$5,088. Coverage is at \$5,000,000 for Liability and \$5,000,000 for hangar keepers legal. In addition, the City purchases excess liability insurance for all City operations including auto, for a limit of \$10,000,000 at a cost of \$286,784. The excess policy provides \$1,000,000 Self Insured Retention. The City also purchases Liability on specific autos' up to \$1,000,000 at a cost of \$35,114.

Worker's Compensation. The City is self-insured through the fund for worker's compensation; however, an excess coverage policy is carried at a premium cost of \$52,248. The policy has a \$400,000/\$750,000 deductible. The costs of claims for workers' compensation totaled \$419,328 in 2002. This amount represents payments made for prior years as well as 2002. Approximately 125 claims were processed in 2002.

Property. The City carries fire damage insurance (Buildings and Business Personal Property), fleet physical damage coverage, boiler and machinery, and flood insurance coverage at a cost of \$385,984. Policy coverage for fire damage is up to \$249,657,632 with a \$50,000 deductible. This represents replacement cost for all City buildings and contents. Fleet physical damage coverage is maintained for catastrophic event coverage up to a \$12,874,001. The deductible for Fleet Physical Damage is \$25,000. The Boiler and Machinery coverage is maintained at a limit of \$100,000,000 with a \$5,000 deductible. 125 property claims were reported for 2002. Property claim costs during 2002 totaled \$157,410. This amount represents payments made for prior years as well as 2002.

Contributions and Reserves. City fund contributions to the Self-Insurance Fund are determined using information from the contributing funds past claims experience and loss exposures. As of December 31, 2002, the retained earnings totaled \$1,215,386. The claims liability reported in the fund totaled \$1,917,314 for the period ending December 31, 2002. The amount reported is as follows:

<u>Liability Reserves</u>	
Open Claims	\$ 380,150
Incurred But Not Reported	<u>676,193</u>
Total Liability Reserves	<u>1,056,343</u>
<u>Property Reserves</u>	
Open Claims	139,902
Incurred But Not Reported	<u>77,847</u>
Total Property Reserves	<u>217,749</u>
<u>Worker's Compensation Reserves</u>	
Open Claims	362,241
Incurred But Not Reported	<u>280,981</u>
Total Worker's Compensation Reserves	<u>643,222</u>
Total Liability Reserves	<u>\$1,917,314</u>

The claims liability, as reported in the fund, is based on the requirements of GASB Statement 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and that the amount of the loss can be reasonably estimated. Changes in the fund's claims liability amount in 2001 and 2002 are as follows:

<u>Year</u>	<u>Beginning of Fiscal Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Balance at Fiscal Year End</u>
2002	1,251,262	789,171	123,119	1,917,314
2001	1,530,932	398,313	677,983	1,251,262

Investment Policy

The City has a formal investment policy and has established an Investment Committee, consisting of the Financial & Management Services Manager, the Treasurer and the Treasury Accountant. The City's primary investment objectives are: (1) to provide safety of principal as the foremost objective, followed by, (2) liquidity to meet operating requirements, and (3) yield through a generally passive investment approach. RCW 36.29.020, 35.39.030, 36.33.070, 39.58.130, and 39.60.010 provide authorization for the purchase of various types of security instruments.

Deposits. The Federal Deposit Insurance Corporation ("FDIC") insures the City's deposit up to \$100,000. All deposits not covered by FDIC are covered under the State Public Deposit Protection Commission Act of 1969. The total City deposits held in a qualified public depository may not exceed the depository's net worth.

Investments. The City's investments are categorized to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured, registered, or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the financial institution's trust department or counter-party's agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer or by its safekeeping department or agent but not in the City's name. All of the City's investments are currently Category 1 type investments, except for monies invested with the Washington State Local Government Investment Pool, which is not categorized.

City Investments (as of December 31, 2003)

	(In Thousands)	
	<u>Carrying Amount</u>	<u>Market Value</u>
US Government Agencies	\$138,710	138,928
State & County Local Government Investment Pools	62,838	62,838
Passbook/Money Market Accounts	<u>2,042</u>	<u>2,042</u>
Corporate Bonds	<u>2,541</u>	<u>2,655</u>
Total Investments	<u>\$206,131</u>	<u>\$206,463</u>

Throughout 2003, the City was in compliance with all statutes pertaining to the investment of City moneys.

LEGAL MATTERS

Tax Exemption

In the opinion of Preston Gates & Ellis LLP, Seattle, Washington, Bond Counsel, interest on the Bonds is excluded from gross income subject to federal income taxation pursuant to Section 103 of the Code, provided the arbitrage requirements of Section 148 of the Code described in this section under the heading "Continuing Requirements" are met. The Bonds are not private-activity Bonds and interest on the Bonds is not an item of tax preference for purposes of determining alternative minimum taxable income for individuals or corporations under the Code. However, interest on the Bonds is taken into account in the computation of adjusted current earnings for purposes of the corporate alternative minimum tax under Section 55 of the Code as more fully described in this section under the heading "Certain Federal Income Tax Consequences."

Except as described herein, Bond Counsel expresses no opinion on any federal, state or local tax consequence arising with respect to ownership of the Bonds.

Continuing Requirements

Section 148 of the Code has continuing arbitrage requirements that must be met subsequent to the issuance of the Bonds for the interest on the Bonds to be, and remain, exempt from regular federal income taxation. These requirements include provisions that prescribe investment yield limitations for the proceeds of the Bonds and that certain investment earnings be paid on a periodic basis to the federal government. The Bond Ordinance contains covenants of the City to comply with these continuing arbitrage requirements. Bond Counsel has not undertaken to determine (or to inform any person) whenever any action taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may affect the tax status of the interest on the Bonds.

Certain Federal Income Tax Consequences

The following is a discussion of certain federal tax matters under the Code. This discussion does not purport to deal with all aspects of federal taxation that may be relevant to particular Bondowners. Prospective Bondowners, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the Bonds, as well as any tax consequences arising under the laws of any state or other taxing jurisdiction.

Alternative Minimum Tax on Corporations. Section 55 of the Code imposes an alternative minimum tax on corporations equal to the excess of the tentative minimum tax for the taxable year over the regular tax for such year. The tentative minimum tax is based upon alternative minimum taxable income, which is regular taxable income with certain adjustments and increased by the amount of certain items of tax preference. One of the adjustments is a portion (75% for any taxable year beginning after 1989) of the amount by which a corporation's adjusted current earnings exceeds the corporation's alternative minimum taxable income (determined without regard to such adjustment and the alternative tax net operating loss deduction). Interest on tax-exempt obligations, such as the Bonds, is included in a corporation's adjusted current earnings.

For taxable years beginning after December 31, 1997, the corporate alternative minimum tax is repealed for small business corporations that had average gross receipts of less than \$5 million for the 3-year period beginning after December 31, 1994, and such small business corporations will continue to be exempt from the corporate alternative minimum tax so long as their average gross receipts do not exceed \$7.5 million.

Financial Institutions. The Code denies banks, thrift institutions and other financial institutions a deduction for 100% of their interest expense allocable to tax-exempt obligations, such as the Bonds.

Borrowed Funds. The Code provides that interest paid on funds borrowed to purchase or carry tax-exempt obligations during a tax year is not deductible. In addition, under rules used by the Internal Revenue Service for determining when borrowed funds are considered used for the purpose of purchasing or when carrying particular assets, the purchase of obligations may be considered to have been made with borrowed funds even though the borrowed funds are not directly traceable to the purchase of such obligations.

Property and Casualty Insurance Companies. The deduction for loss reserves for property and casualty insurance companies is reduced by 15% of the sum of certain items, including the interest received on tax-exempt Bonds, such as the Bonds.

Social Security and Railroad Retirement Benefits. The Code also requires recipients of certain Social Security or Railroad Retirement benefits to take into account, in determining gross income, receipts or accruals of interest that are exempt from federal income tax.

Branch Profits Tax. Certain foreign corporations doing business in the United States may be subject to a branch profits tax on their effectively connected earnings and profits, including tax-exempt interest on obligations such as the Bonds.

S Corporations. Certain S corporations that have Subchapter C earnings and profits at the close of a taxable year and gross receipts more than 25% of which are passive investment income, which includes interest on tax-exempt obligations, such as the Bonds, may be subject to a tax on excess net passive income.

Opinions of Counsel

Legal matters incident to the authorization, issuance, and sale of the Bonds by the City are subject to the approving legal opinion of Preston Gates & Ellis LLP, Seattle, Washington, Bond Counsel. A form of the legal opinion of Bond Counsel is attached hereto as Appendix B. Bond Counsel has reviewed this Official Statement only to confirm that the portions of it describing the Bonds and the authority to issue them, conform to the Bonds and the applicable laws under which they are issued. Certain legal matters will be passed upon for the Underwriter by its counsel, Gottlieb, Fisher & Andrews, PLLC, Seattle, Washington.

Litigation

There is no controversy or litigation pending, or to the best knowledge of the City threatened, affecting the issuance and delivery of the Bonds, or the power and authority of the City to issue the Bonds.

Enforceability

The provisions of the Bonds and the Bond Ordinance constitute contracts between the City and the owner or owners of the Bonds, and such provisions are enforceable by the Registered Owner or owners in a court of competent jurisdiction in the State by mandamus or other appropriate remedy, subject to judicial discretion and the valid exercise of sovereign police power of the State and may be limited by laws affecting the rights of creditors.

OTHER MATTERS

Continuing Disclosure Undertaking

General. In accordance with Section (b)(5) of Securities and Exchange Commission Rule 15c2-12 under the Securities Exchange Act of 1934, as the same may be amended from time to time (the "Rule"), the City has agreed in the Bond Ordinance to provide or cause to be provided to each nationally recognized municipal securities information repository ("NRMSIR") and to the state information depository for the State ("SID"), if any, in each case as designated by the Securities and Exchange Commission (the "Commission") in accordance with the Rule, the following annual financial information and operating data for the prior fiscal year (commencing in 2005 for the fiscal year ended December 31, 2004):

- (1) Annual financial statements showing ending fund balances for the System prepared in accordance with generally accepted accounting principles applicable to government entities (and modified as may be required by the Washington State Auditor pursuant to RCW 43.09.200 (or any successor statutes)) and generally of the type included in this Official Statement under the heading "THE SYSTEM—Water and Sewer System—Historical Operating Results."
- (2) Updated versions of the type of historical financial information and operating data contained in this Official Statement under the headings "THE SYSTEM—Water Rates and Charges," "—Historical Water Operating Statistics," "—Sewer Rates and Charges" and "—Historical Sewer Customers" and "DEBT INFORMATION—Schedule of System Debt Service."

Such annual information and operating data described above shall be provided on or before the expiration of nine months after the end of the City's fiscal year. The City's current fiscal year ends on December 31. The City may adjust such fiscal year by providing written notice of the change of fiscal year to each then existing NRMSIR and the SID, if any. In lieu of providing such annual financial information and operating data, the City may cross-reference to other documents provided to the NRMSIRs, the SID or to the Commission and, if such document is a final official statement within the meaning of the Rule, available from the MSRB.

If not provided as part of the annual financial information discussed above, the City shall provide the City's audited annual financial statement prepared in accordance with regulations prescribed by the State Auditor pursuant to RCW 43.09.200 (or any successor statutes), when and if available, to each then existing NRMSIR and the SID, if any.

Material Events. The City agrees to provide or cause to be provided, in a timely manner, to the SID, if any, and to each NRMSIR or to the MSRB notice of the occurrence of any of the following events with respect to the Bonds, if such event is material:

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions or events affecting the tax-exempt status of the Bonds;

- (7) Modifications to rights of Bondholders;
- (8) Bond calls;
- (9) Defeasances;
- (10) Release, substitution or sale of property securing the repayment of the Bonds; and
- (11) Rating changes.

Solely for the purposes of disclosure, and not intending to modify this undertaking, the City advises that there is no property securing repayment of the Bonds.

Notification Upon Failure to Provide Financial Data. The City agrees to provide or cause to be provided, in a timely manner, to each NRMSIR or to the MSRB and to the SID, if any, notice of its failure to provide the annual financial information described above in this section under the subheading "General" on or prior to the date set forth above in such subsection.

Termination/Modification. The City's obligations to provide annual financial information and notices of material events shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. The continuing disclosure requirement, and any related provision, shall be null and void if the City (1) obtains an opinion of nationally recognized bond counsel to the effect that those portions of the Rule which require continuing disclosure, are invalid, have been repealed retroactively or otherwise do not apply to the Bonds; and (2) notifies each then existing NRMSIR and the SID, if any, of such opinion and the cancellation of this requirement. The continuing disclosure requirement may be amended, without the consent of the Bondowners, with an opinion of nationally recognized bond counsel in accordance with the Rule. In the event of any such amendment, the City shall describe such amendment in the next annual report, and shall include, a narrative explanation of the reason for the amendment and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a material event described above under the subheading "Material Events," and (ii) the annual report for the year in which the change is made shall present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Bondowner's Remedies Related to Continuing Disclosure Undertaking. A Bondowner's or a Beneficial Owner's right to enforce the provisions related to continuing disclosure undertaking shall be limited to a right to obtain specific enforcement of the City's obligations related thereto, and any failure by the City to comply with the provisions of this undertaking shall not be an Event of Default with respect to the Bonds under the Bond Ordinance. For purposes of this section, "Beneficial Owner" means any person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds, including persons holding Bonds through nominees or depositories.

Compliance with Existing Undertakings. The ordinance authorizing the issuance of the 1995 Bonds required that the City file its annual financial information by the end of the eighth month following the fiscal year end; the City failed to do so for the fiscal year ended December 31, 2001. The City filed its annual financial information for the fiscal year ended December 31, 2001 on September 30, 2002. The City has provided notice of its failure to file its annual financial information by the required deadline. The City has otherwise complied with the provisions of its various continuing disclosure undertakings. The failure of the City in any respect to comply with the terms related to continuing disclosure undertaking under the Bond Ordinance or

with the terms of any other commitment for ongoing disclosure under the Rule shall not constitute an Event of Default under the Bond Ordinance.

Underwriting

The Bonds are being purchased by the Underwriter from the City at a price of _____% of par plus accrued interest and will be re-offered at the aggregate price of _____% of par, subject to the terms of a purchase contract between the City and the Underwriter (the "Purchase Contract"). The Purchase Contract provides that the Underwriter shall purchase all of the Bonds if any are purchased and that the obligation to make such purchase is subject to certain terms and conditions set forth in the Purchase Contract, the approval of certain legal matters by counsel and certain other conditions. The initial public offering prices set forth on the cover hereof may be changed from time to time by the Underwriter. The Underwriter may offer and sell the Bonds into unit investment trusts or money market funds, certain of which may be sponsored or managed by the Underwriter, at prices lower than the public offering prices stated on the cover hereof.

Ratings

As noted on the cover page of this Official Statement, Moody's Investors Service, New York, New York ("Moody's"), and Standard & Poor's Ratings Services, New York, New York ("S&P"), have assigned their municipal bond rating of "___" and "___," respectively, to the Bonds, with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the payment when due of the principal of and interest on the Bonds will be issued by Financial Guaranty Insurance Company. Moody's and S&P have also assigned underlying ratings of "___" and "___," respectively, to the Bonds. No application was made to any other rating agency for the purpose of obtaining an additional rating on the Bonds. Each rating reflects only the view of the applicable rating organization and an interpretation of such rating may be obtained only from the rating agency furnishing the same, at the following address: Moody's Investors Service, Inc., 99 Church Street, New York, New York 10007; Standard & Poor's Ratings Services, 55 Water Street, New York, New York 10041. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies, and assumptions of its own. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by the rating agencies, if, in judgment of such agencies, circumstances so warrant. Any such revision or withdrawal of either such rating may have an adverse effect on the market price of the Bonds.

CUSIP Numbers

It is anticipated that CUSIP identification numbers will be printed on the Bonds, but neither the failure to print such numbers on any Bonds or any error with respect thereto shall constitute cause for a failure or refusal by the purchaser hereof to accept delivery of and pay for said Bonds in accordance with the terms of the purchase contract. All expenses in relation to the printing of CUSIP numbers on said Bonds shall be paid by the City; provided, however, that the CUSIP Service Bureau charge for the assignment of said numbers shall be the responsibility of and shall be paid for by the purchaser.

Official Statement Certificate

At the time of delivery of the Bonds, one or more officials of the City will furnish a certificate stating that to the best of his or her knowledge, this Official Statement, as of its date and as of the date of delivery of the Bonds does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements contained herein, in light of the circumstances under which they were made, misleading.

Statements in this Official Statement, including matters of opinion, whether or not expressly so stated, are intended as such and not as representation of fact. This Official Statement is not to be construed as a

contract or agreement between the City or the Underwriter and the purchasers of the Bonds. The preparation and distribution of this Official Statement has been authorized by the City.

Pursuant to the Rule, the Treasurer of the City has deemed this Preliminary Official Statement "final" as of its date, except for the omission of information dependent upon the pricing of the Bonds and completion of the purchase contract, such as, offering prices, interest rates, selling compensation, aggregate principal amount, aggregate principal amount per maturity, and other terms of the Bonds dependent upon the foregoing matters.

CITY OF VANCOUVER, WASHINGTON

By:
Its: Treasurer

APPENDIX A
DEMOGRAPHIC AND ECONOMIC INFORMATION

APPENDIX A DEMOGRAPHIC AND ECONOMIC INFORMATION

Industry

The City of Vancouver is located in southwest Clark County, Washington approximately 15 miles north of Portland, Oregon. It is the largest city in Clark County with a population of 148,800 as of April, 2003. The Vancouver PMSA (Clark County) has a diversified industrial base which includes the following types of industry: computer, steel fabrication, electronics, airplane repair, electric heat equipment, machine shops, fruit packing, furniture manufacturing, paper bags, brick and tile, ice manufacturing, grain elevator, malt plant, chemicals, clothing manufacturing, twine and ropes, concrete pipes and blocks, golf carts, fertilizer, industrial ceramics, disposable diapers, plastic bottles, cabinet manufacturing, luxury motor yachts, VCRs, plastic manufacturing, and snack food manufacturing.

Clark County's Largest Private Employers⁽¹⁾

	Employer	Industry	Employees
1.	Southwest Washington Medical Center	Health Care	3,046
2.	Hewlett-Packard	Technology	1,700
3.	Fred Meyer Stores	Retail	1,360
4.	Georgia-Pacific	Manufacturing	1,250
5.	Safeway Stores	Retail	1,202
6.	SEH America Inc. ⁽²⁾	Manufacturing	922
7.	Wafertech	Manufacturing	860
8.	The Vancouver Clinic	Health Care	708
9.	Kaiser Permanente	Health Care	638
10.	Frito-Lay Inc.	Manufacturing	675

(1) Ranked by number of full-time employees within Clark County. Figures as of 11/01/02.

(2) In late September 2002, SEH America laid off 175 workers reducing its Vancouver area workforce to 935 employees.

Source: *Vancouver Business Journal*.

Clark County's Largest Public Employers*

	Employer	Industry	Employees
1.	Evergreen School District	School District	2,772
2.	Vancouver Public Schools	School District	2,676
3.	Clark County	County Government	1,542
4.	Clark College	Community College	1,392
5.	City of Vancouver	City Government	1,015
6.	Bonneville Power Administration	Utilities, Power	1,000
7.	Battle Ground School District No. 119	School District	894
8.	Washougal School District No. 112	School District	585
9.	Camas School District No. 117	School District	541
10.	Educational Service District No. 112	School District	490

* Ranked by number of employees within Clark County. Figures as of 11/01/02.

Source: *Vancouver Business Journal*.

Population

Historical, current and estimated population data for Clark County and the City of Vancouver are the following:

Year	Clark County	Percent Change	Vancouver	Percent Change
2003	372,300	2.5%	150,700	1.3%
2002	363,400	3.0%	148,800	2.4%
2001	352,600	2.1%	145,300	1.2%
2000	345,238	2.3%	143,560	5.8%
1999	337,000	2.7%	135,100	2.4%

Source: State Office of Financial Management.

Income Data

Personal Income (\$/000s)

	2001	2000	1999	1998	1997
Clark County	10,335,767	10,100,784	9,454,418	8,687,713	8,095,779
State of Washington	191,763,140	184,517,693	174,876,529	161,069,171	150,202,630
United States	8,678,255,000	8,314,032,000	7,784,137,000	7,383,476,000	6,928,545,000

Source: US Bureau of Economic Analysis, U.S. Department of Commerce.

Per Capita Income

	2001	2000	1999	1998	1997
Clark County	\$28,763	\$29,085	\$27,159	\$25,954	\$25,253
State of Washington	32,025	31,230	29,819	28,285	26,469
United States	30,472	29,469	27,843	26,893	25,412

Source: US Bureau of Economic Analysis, U.S. Department of Commerce.

Labor Force Data

Employment Statistics (Annual Averages)

The following employment figures for Clark County are provided to characterize the area's labor market:

	2002	2001	2000	1999	1998
Labor Force	183,800	179,200	178,000	180,500	178,100
Employed	168,100	166,500	170,400	173,300	170,400
Unemployed	15,800	12,700	7,600	7,100	7,700
% Unemployed	8.6%	7.1%	4.2%	4.0%	4.4%

Source: Washington State Employment Security Department.

**Non-Agricultural and Salary Workers
Employed in Clark County (Annual Averages)⁽¹⁾**

	2002	2001	2000	1999	1998
MANUFACTURING	13,500	18,100	19,100	18,800	20,000
<u>Durable Goods:</u>	7,700	11,700	12,600	12,300	13,100
Lumber & Wood Products	700	1,000	1,000	1,000	1,200
Metals & Metal Products	1,100	900	1,400	1,500	1,700
Computers & Industrial Machinery	1,100	3,400	3,500	3,600	4,000
Electronics & Instruments	3,400	5,000	5,400	4,900	5,200
Other Durable Goods	1,400	1,400	1,300	1,300	1,100
<u>Non-durable Goods:</u>	5,800	6,400	6,600	6,600	6,900
Food Processing	1,200	1,200	1,100	1,200	1,100
Textiles & Apparel	2,200	700	700	800	1,000
Paper Products	1,200	2,600	2,700	2,600	2,700
Other Non-durable Goods	1,200	2,000	2,100	1,100	2,100
CONSTRUCTION & MINING	10,200	9,800	10,000	10,100	10,200
TRANSPORT & PUBLIC UTILITIES	6,300	7,300	6,900	6,700	6,300
WHOLESALE & RETAIL TRADE	17,300	27,400	28,500	27,500	25,900
FIN., INS & REAL ESTATE	5,500	4,600	4,600	5,000	5,300
SERVICES	42,900	30,900	28,600	26,700	26,600
GOVERNMENT	20,900	20,200	19,400	19,100	18,500
TOTAL	116,500	118,400	117,200	114,000	112,600

(1) Numbers may not add due to rounding.

Source: Washington State Employment Security Department.

Other Data

**City of Vancouver
Building Permits**

Year	Commercial Construction		Residential Construction ⁽¹⁾	
	Number of Permits	Valuation	Number of Living Units	Valuation
2003	784	\$126,706,894	1364	\$ 63,112,744
2002	747	103,152,352	990	46,078,186
2001	438	105,368,977	958	49,397,611
2000 ⁽²⁾	427	112,964,814	817	65,904,934
1999	3,383	89,739,228	1,427	115,302,893
1998	3,624	61,434,894	1,626	136,558,291
1997	3,487	137,828,769	1,878	145,030,670

(1) Includes new construction and additions and alterations.

(2) Changed computerized permit system in November 1999. New system accumulates and tracks information differently.

Source: City of Vancouver Building Department, Washington.

**City of Vancouver and Clark County
Taxable Retail Sales (\$000's)**

Year	City of Vancouver	Clark County
2002	\$1,924,333	\$3,499,221
2001	1,926,259	3,375,916
2000	1,946,247	3,312,943
1999	1,857,340	3,211,487
1998	1,781,776	3,158,997
1997	1,604,781	2,951,926

Source: Washington State Department of Revenue.

APPENDIX B
FORM OF LEGAL OPINION

**APPENDIX B
FORM OF LEGAL OPINION**

February __, 2004

City of Vancouver, Washington

Piper Jaffray & Co.
Seattle, Washington

Re: City of Vancouver, Washington Water and Sewer Revenue Refunding Bonds, 2004

Ladies and Gentlemen:

We have acted as bond counsel to the City of Vancouver, Washington (the "City"), and have examined a certified transcript of all of the proceedings taken in the matter of the issuance by the City of its Water and Sewer Revenue Refunding Bonds, 2004, in the aggregate principal amount of \$_____ (the "Bonds") issued pursuant to Ordinance No. M-_____ of the City (the "Bond Ordinance") for the purpose of refunding certain outstanding water and sewer revenue bonds of the City. Capitalized terms used in this opinion have the meanings given such terms in the Bond Ordinance.

The Bonds are [not] subject to redemption prior to their stated maturities as provided in the Bond Ordinance.

As to questions of fact material to our opinion, we have relied upon representations of the City contained in the Bond Ordinance and in the certified proceedings and other certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

From such examination, as of this date and under existing law, we express the following opinions.

1. The Bonds have been legally issued and constitute valid special obligations of the City, both principal thereof and interest thereon being payable solely out of a special fund of the City known as the "Water and Sewer Revenue Bond Fund" (the "Bond Fund"), except to the extent that the enforcement of the rights and remedies of such owners of the Bonds may be limited by laws relating to bankruptcy, reorganization, insolvency, moratorium or other similar laws of general application affecting the rights of creditors, by the application of equitable principles and the exercise of judicial discretion.

2. The City has irrevocably bound itself to set aside and pay into the Bond Fund and the accounts therein out of Revenues of the System deposited into the Revenue Fund amounts necessary to pay the principal of and interest on the Bonds as the same become due.

3. By the Bond Ordinance the City has pledged that the payments to be made into the Bond Fund and the accounts therein from the Revenue Fund shall be a lien and charge upon the Revenues equal to the lien and charge upon such Revenues made for the payment of the principal of and interest on the Outstanding Parity Bonds and any Future Parity Bonds, and prior and superior to all other charges of any kind or nature whatsoever, except for the payment of Operating Expenses. The City has reserved the right to issue Future Parity Bonds on the terms set forth in the Bond Ordinance.

4. Interest on the Bonds is excluded from gross income for purposes of federal income taxation pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). The

Bonds are not private activity bonds. Interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals or corporations, but is taken into account in the computation of adjusted current earnings for purposes of the corporate alternative minimum tax under Section 55 of the Code. The opinions stated in this paragraph are subject to the condition that the City comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The City has covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause the interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds.

The Bonds are not "qualified tax-exempt obligations" for investment by financial institutions under the Code.

We have not been engaged nor have we undertaken to review the accuracy, completeness or sufficiency of the official statement or other offering material related to the Bonds (except to the extent, if any, stated in the official statement), and we express no opinion relating thereto, or relating to the undertaking by the City to provide ongoing disclosure pursuant to Securities and Exchange Commission Rule 15c2-12.

We express no opinion regarding any other federal, state or local tax consequences arising with respect to ownership of the Bonds.

This opinion is given as of the date hereof and we assume no obligation to update, revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,

PRESTON GATES & ELLIS LLP

By
Cynthia M. Weed

APPENDIX C

**EXCERPT FROM THE CITY'S
COMPREHENSIVE ANNUAL FINANCIAL REPORT**

Government-Wide Financial Statements

CITY OF VANCOUVER
STATEMENT OF NET ASSETS
December 31, 2002

ASSETS	Governmental Activities	Business-type Activities	Total Primary Government	Component Units
Cash, cash equivalents and pooled investments	\$ 92,445,967	\$ 89,098,603	\$ 181,544,570	\$ 865,305
Cash with fiscal/escrow agent	34,043	0	34,043	387,461
Receivables (net of allowance for uncollectible)	47,491,689	5,002,512	52,494,201	151,564
Internal balances	(317,827)	317,827	0	0
Due from component units	158,000	0	158,000	0
Inventories	216	755,180	755,396	0
Prepaid Items	285,244	0	285,244	0
Advances to other funds	1,610,000	(1,610,000)	0	0
Deferred Charges	316,770	1,464,520	1,781,290	0
Restricted assets				
Cash	0	2,426,638	2,426,638	6,375
Due from other governmental units	0	0	0	199,580
Capital assets (net of accumulated depreciation)				
Land	37,831,107	6,334,320	44,165,427	0
Buildings	26,117,572	16,669,418	42,786,990	0
Machinery and equipment	15,753,972	15,058,235	30,812,207	0
Infrastructure	82,444,521	305,090,308	387,534,829	0
Construction work in progress	28,186,001	19,646,896	47,832,897	0
TOTAL ASSETS	332,357,275	460,254,457	792,611,732	1,610,285
LIABILITIES				
Accounts payable and other current liabilities	9,094,781	2,700,884	11,795,665	85,795
Matured bonds and interest payable	25,000	0	25,000	15,000
Accrued interest payable	199,920	1,026,251	1,226,171	0
Due to the primary government	0	0	0	158,000
Unearned revenue	34,570	0	34,570	38,828
Custodial accounts	53,217	316,359	369,576	6,375
Noncurrent liabilities:				
Special assessment debt with governmental commitments	167,687	0	167,687	0
Due within one year	2,952,675	7,874,907	10,827,582	0
Due in more than one year	64,643,147	162,676,368	227,319,515	11,969
TOTAL LIABILITIES	77,170,997	174,594,769	251,765,766	315,967
NET ASSETS				
Invested in capital assets, net of related debt	122,737,351	195,403,479	318,140,830	0
Restricted for:				
Transportation	15,467,807	0	15,467,807	0
Capital	17,434,338	116,619	17,550,957	0
Debt Service	321,568	0	321,568	0
Public Safety	391,936	0	391,936	0
Other purposes	3,399,158	0	3,399,158	0
Unrestricted	95,434,120	90,139,590	185,573,710	1,133,824
TOTAL NET ASSETS	\$ 255,186,278	\$ 285,659,688	\$ 540,845,966	\$ 1,133,824

The notes to the financial statements are an integral part of this statement

CITY OF VANCOUVER
STATEMENT OF ACTIVITIES
Year Ended December 31, 2002

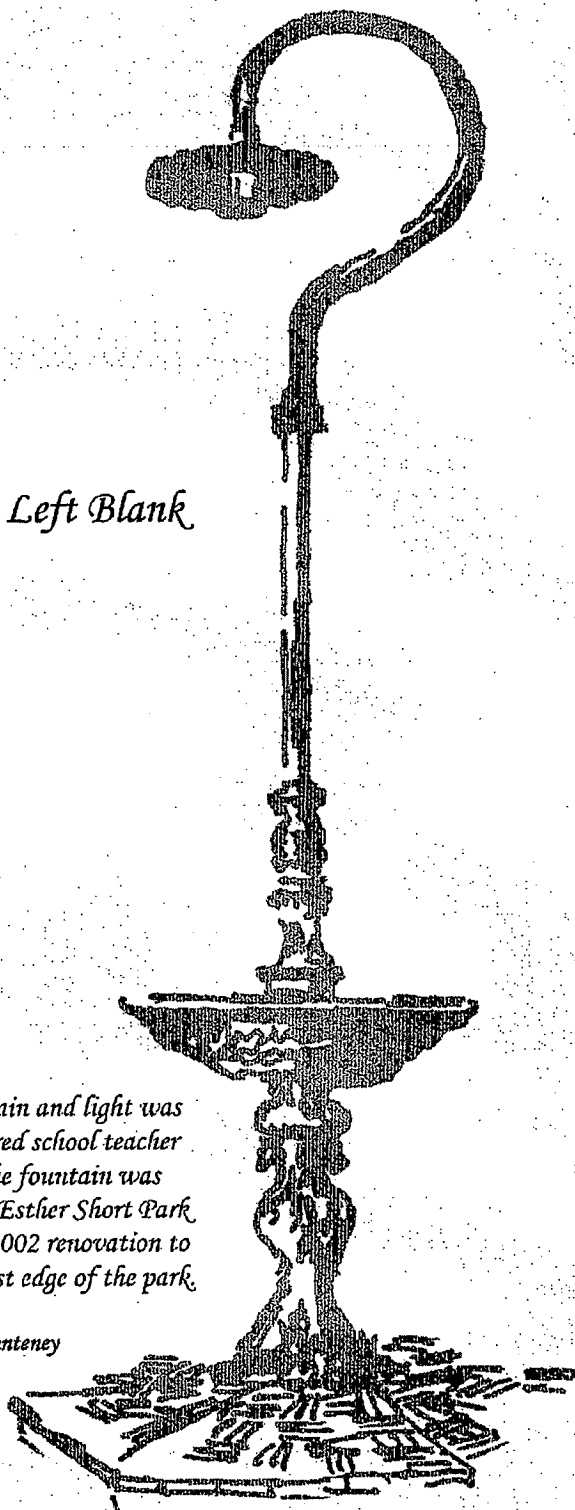
Functions/Programs	Program Revenues		Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services, fees, fines and forfeitures	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities
PRIMARY GOVERNMENT						
Governmental Activities:						
General Government	\$ 18,190,213	\$ 7,027,716	0	0	(11,162,497)	0
Judicial	1,147,809	1,264,377	0	0	116,568	0
Public Safety	45,624,114	6,604,494	767,271	0	(38,252,349)	0
Physical Environment	1,430,560	87,292	0	0	(1,333,268)	0
Transportation	15,818,168	94,804	2,281,845	9,266,041	(4,175,478)	0
Health and Human Services	532,358	0	0	0	(532,358)	0
Economic Environment	8,128,009	7,675,273	781,145	1,501,833	1,830,242	0
Culture and Recreation	18,919,395	4,468,867	784,131	0	(13,686,397)	0
Interest on Long-Term Debt	3,045,613	0	0	0	(3,045,613)	0
TOTAL GOVERNMENTAL ACTIVITIES	112,836,237	27,232,823	4,594,392	10,767,874	(70,241,148)	0
Business Type Activities						
Water Sewer	55,102,522	48,760,950	24,642	13,022,954	0	7,706,024
Parking	2,086,034	1,404,571	0	0	0	(681,463)
Airpark	519,212	480,222	0	1,070,063	0	1,031,073
Building Inspection	3,508,740	3,899,846	0	0	0	391,106
Sanitation	2,328,020	2,718,687	0	0	0	390,667
Tennis Center	827,186	663,875	0	15,082	0	(148,228)
Fire Shop	851,284	901,248	0	0	0	49,964
TOTAL BUSINESS-TYPE ACTIVITIES	65,222,998	59,829,399	24,642	14,108,099	0	8,739,142
Total Primary Government	\$ 178,059,235	\$ 87,062,222	\$ 4,619,034	\$ 24,875,973	\$ (70,241,148)	\$ (91,502,006)
Component Units						
Development Authority	\$ 1,766,805	\$ 1,200,016	873,743	0	0	0
Facilities District	177,842	715,468	0	0	0	0
TOTAL COMPONENT UNITS	1,944,647	1,915,484	873,743	0	0	0
General Revenues:						
Taxes:						
Property Taxes Levied for General Purposes					31,637,316	0
Sales and Use Taxes					21,051,511	0
Business and Occupation Taxes					10,301,011	0
Excise Taxes					10,730,323	0
Penalties and Interest					30,135	0
Grants and Contributions not Restricted to Specific Programs					2,840,983	0
Unrestricted Investment Earnings					3,177,426	27,932
Miscellaneous					386,891	0
Transfers					(742,064)	0
Total General Revenues, Extraordinary, Special Items, and Transfers					78,213,512	27,932
Change in Net Assets					8,972,364	872,512
Net Assets - Beginning					246,213,914	261,312
Prior year adjustments					0	0
Net Assets - Ending					255,186,278	1,133,824

The notes to the financial statements are an integral part of this statement

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This Victorian style drinking fountain and light was a gift to the community from a retired school teacher who loved children and animals. The fountain was originally installed in the center of Esther Short Park in 1905. It was moved during the 2002 renovation to the Rose Garden, located at the west edge of the park.

~ Drawing courtesy of Kelly Puntenev



Fund Financial Statements

CITY OF VANCOUVER
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2002

	General Fund	Street Fund	Consolidated Fire	Transportation Capital	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash, cash equivalents and pooled investments	\$ 15,194,519	\$ 2,682,796	\$ 5,231,943	\$ 6,428,155	\$ 50,297,023	\$ 79,834,436
Cash with fiscal/escrow agent	0	0	0	0	29,043	29,043
Receivables (net)						
Taxes/assessments	35,157,579	348,342	0	0	447,050	35,952,971
Accounts	684,779	65,617	152	0	365,326	1,115,874
Notes	0	0	0	0	1,476,754	1,476,754
Due from other funds	192,599	0	0	139,444	10,610	342,653
Interfund loan receivable	308,185	0	0	0	0	308,185
Due from other governmental units	183,579	196,446	0	7,911,039	654,576	8,945,640
Due from component units	158,000				0	158,000
Inventory	0	0	216	0	0	216
Prepaid items	260,244	0	0	0	0	260,244
Advances to other funds	1,610,000	0	0	0	0	1,610,000
TOTAL ASSETS	\$ 53,749,484	\$ 3,293,201	\$ 5,232,311	\$ 14,478,638	\$ 53,280,382	\$ 130,034,016
LIABILITIES AND FUND BALANCE						
Liabilities						
Accounts payable	\$ 1,489,407	\$ 296,655	\$ 96,750	\$ 1,434,280	\$ 1,376,764	\$ 4,693,856
Matured bond principal payable	0	0	0	0	25,000	25,000
Due to other funds	102,010	141,986	0	0	432,257	676,253
Interfund loan payable	0	0	0	0	308,185	308,185
Due to other governmental units	0	0	0	0	209,705	209,705
Accrued liabilities	2,440,067	200,436	639,410	87,495	273,259	3,640,667
Revenues collected in advance	13,727	0	0	343	20,500	34,570
Custodial accounts	31,637	0	0	0	0	31,637
Deferred revenues	31,521,171	0	0	15,000	124,300	31,660,471
Total liabilities	35,598,019	639,077	736,160	1,537,118	2,769,970	41,280,344
Fund balances						
Reserved for						
Inventories	0	0	216	0	0	216
Non current receivables	1,918,185	0	0	0	0	1,918,185
Debt service	0	0	0	0	321,568	321,568
Capital	5,826,804	0	0	0	12,135,820	17,962,624
Other purposes	305,979	0	2,000	0	1,474,652	1,782,631
Unreserved	10,100,497	2,654,124	4,493,935	12,941,520	0	30,190,076
Unreserved, reported in nonmajor:						
Special revenue funds	0	0	0	0	36,578,372	36,578,372
Total fund balance	18,151,465	2,654,124	4,496,151	12,941,520	50,510,412	88,753,672
TOTAL LIABILITIES AND FUND BALANCES	\$ 53,749,484	\$ 3,293,201	\$ 5,232,311	\$ 14,478,638	\$ 53,280,382	

Amounts reported for governmental activities in the statement of net assets are different because (See Note II also):

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	184,274,933
Other long-term assets are not available to pay for current-period expenditures and, therefore are deferred in the funds	31,962,241
Internal service funds are used to charge the costs of services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets	16,015,773
Long-term liabilities that are not due and payable in the current period and are not reported in the funds	(65,813,761)
Net assets of governmental activities	\$ 255,192,858

The notes to the financial statements are an integral part of this statement

CITY OF VANCOUVER
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the year ended December 31, 2002

	General Fund	Street Fund	Consolidated Fire	Transportation Capital	Other Governmental Funds	Total Governmental Funds
REVENUES						
Property taxes	\$ 30,638,233	0	0	0	0	\$ 30,638,233
Sales and use taxes	17,076,998	\$ 1,777,520	0	0	\$ 2,227,128	21,081,646
Other taxes	20,733,427	0	0	0	297,907	21,031,334
License and permits	654,090	240,577	\$ 134,108	0	0	1,028,775
Intergovernmental	4,262,176	2,281,552	5,528,658	\$ 7,267,766	4,624,606	23,944,758
Charges for services	9,633,563	40,840	13,442	13,192	6,166,139	15,867,176
Fines and forfeits	1,344,545	0	0	0	74,766	1,419,311
Interest earnings	722,740	0	144,601	197,927	1,727,618	2,792,886
Rents and royalties	636,196	0	0	0	29,149	665,345
Contributions/donations	53,236	1,003	325	34,513	332,751	421,828
Miscellaneous	191,459	21,087	204,953	583,138	775,995	1,756,632
Total revenues	<u>85,946,663</u>	<u>4,342,579</u>	<u>6,026,087</u>	<u>8,078,536</u>	<u>16,256,059</u>	<u>120,647,924</u>
EXPENDITURES						
Current						
General government	15,152,538	0	0	0	1,628,754	16,781,292
Judicial	1,147,809	0	0	0	0	1,147,809
Security/persons & property	26,180,367	0	17,963,950	0	249,685	44,394,002
Physical environment	526,390	0	0	0	2,324	528,714
Transportation	2,433,398	9,920,599	0	1,116,833	225	13,471,055
Economic environment	4,608,506	0	0	0	3,428,693	8,037,199
Mental and physical health	191,789	0	0	0	0	191,789
Culture and recreation	12,381,900	0	0	0	5,385,910	17,767,810
Capital projects	0	0	617,205	13,723,930	7,459,918	21,801,053
Debt service						
Principal retirement	0	0	0	0	2,394,775	2,394,775
Interest/fiscal charges	0	0	0	0	3,148,800	3,148,800
Total expenditures	<u>62,622,697</u>	<u>9,920,599</u>	<u>18,581,155</u>	<u>14,840,763</u>	<u>23,699,084</u>	<u>129,664,298</u>
Excess (deficiency) of revenues over expenditures	23,323,966	(5,578,020)	(12,555,068)	(6,764,227)	(7,443,025)	(9,016,374)
OTHER FINANCING SOURCES (USES)						
Capital related debt issued	0	0	0	0	1,600,000	1,600,000
Refunding bond issued	0	0	0	0	24,584,951	24,584,951
Payment to refunded bond escrow account	0	0	0	0	(24,583,525)	(24,583,525)
Transfers in	362,148	5,639,215	12,940,320	10,239,139	7,148,332	36,329,154
Transfers out	(24,541,532)	0	(9,334)	0	(12,520,352)	(37,071,218)
Total other financing sources and uses	<u>(24,179,384)</u>	<u>5,639,215</u>	<u>12,930,986</u>	<u>10,239,139</u>	<u>(3,770,594)</u>	<u>859,362</u>
Net change in fund balances	(855,418)	61,195	375,918	3,474,912	(11,213,619)	(8,157,012)
FUND BALANCES - BEGINNING	<u>19,006,883</u>	<u>2,592,929</u>	<u>4,120,233</u>	<u>9,460,028</u>	<u>61,724,031</u>	<u>96,904,104</u>
FUND BALANCES - ENDING	<u>\$ 18,151,465</u>	<u>\$ 2,654,124</u>	<u>\$ 4,496,151</u>	<u>\$ 12,934,940</u>	<u>\$ 50,510,412</u>	<u>\$ 88,747,092</u>

The notes to the financial statements are an integral part of this statement.

CITY OF VANCOUVER

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES Year Ended December 31, 2002

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - total governmental funds:	\$	(8,157,012)
Governmental funds report capital outlays as expenditures. However in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expenses. This is the amount by which capital outlays exceeded depreciation in the current period.		16,218,239
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets.		(27,500)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		965,844
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		823,637
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		112,030
Internal service funds are used by management to charge the costs of equipment, insurance and printing to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.		(962,874)
	\$	<u>8,972,364</u>

The notes to the financial statements are an integral part of this statement

CITY OF VANCOUVER

GENERAL FUND

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
COMPARED TO BUDGET (GAAP BASIS) AND ACTUAL
Biennium Ended December 31, 2002**

	Budget Amounts		Actual Biennium- To- Date Thru 12/31/02	Variance Thru 12/31/02
	Original 2001-2002 Biennium	Final 2001-2002 Biennium		
REVENUES				
Taxes	\$ 118,613,918	\$ 118,613,918	\$ 129,868,131	\$ 11,254,213
License and permits	1,140,982	1,140,982	1,233,966	92,984
Intergovernmental	11,449,333	11,449,333	10,877,871	(571,462)
Charges for services	19,910,708	19,910,708	19,499,651	(411,057)
Fines and forfeits	2,420,327	2,420,327	2,565,704	145,377
Miscellaneous:				
Interest earnings	1,001,000	1,001,000	2,110,338	1,109,338
Rents and royalties	149,000	149,000	891,309	742,309
Contributions/donations	0	0	89,215	89,215
Other miscellaneous	393,000	393,000	426,829	33,829
Total revenues	155,078,268	155,078,268	167,563,014	12,484,746
EXPENDITURES				
Current:				
General government	32,768,172	39,287,979	30,565,553	8,722,426
Security/persons & property	38,628,280	38,797,913	46,815,833	(8,017,920)
Physical environment	895,437	953,154	990,274	(37,120)
Transportation	5,869,679	5,934,687	5,205,602	729,085
Economic environment	8,526,272	8,751,197	8,359,128	392,069
Mental and physical health	543,000	431,000	389,259	41,741
Culture and recreation	23,789,661	25,038,692	23,673,334	1,365,358
Total expenditures	111,020,501	119,194,622	115,998,983	3,195,639
Deficiency of revenues under expenditures	44,057,767	35,883,646	51,564,031	15,680,385
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	0	0	24,000	24,000
Operating transfers in	2,605,000	0	2,351,436	2,351,436
Operating transfers out	(47,938,008)	(54,144,985)	(55,260,606)	(1,115,621)
Total other financing sources (uses)	(45,333,008)	(54,144,985)	(52,885,170)	1,259,815
Net change in fund balance	(1,275,241)	(18,261,339)	(1,321,139)	16,940,200
FUND BALANCES AT BEGINNING OF BIENNIUM	19,472,604	19,472,604	19,472,604	0
FUND BALANCES AT END OF BIENNIUM	\$ 18,197,363	\$ 1,211,265	\$ 18,151,465	\$ 16,940,200

The notes to the financial statements are an integral part of this statement

CITY OF VANCOUVER

STREET FUND

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
COMPARED TO BUDGET (GAAP BASIS) AND ACTUAL**

Biennium Ended December 31, 2002

	Budget Amounts		Actual Biennium- To- Date Thru 12/31/02	Variance Thru 12/31/02
	Original 2001-2002 Biennium	Final 2001-2002 Biennium		
REVENUES				
Taxes	\$ 3,000,000	\$ 3,000,000	\$ 3,420,314	\$ 420,314
License and permits	200,000	200,000	443,644	243,644
Intergovernmental	4,218,000	4,218,000	4,523,390	305,390
Charges for services	650,000	650,000	522,283	(127,717)
Other miscellaneous	180,000	180,000	30,015	(149,985)
Total revenues	8,248,000	8,248,000	8,939,646	691,646
EXPENDITURES				
Current:				
Transportation	15,866,440	20,655,334	19,199,831	1,455,503
Total expenditures	15,866,440	20,655,334	19,199,831	1,455,503
Excess (deficiency) of revenues over expenditures	(7,618,440)	(12,407,334)	(10,260,185)	2,147,149
OTHER FINANCING SOURCES (USES)				
Operating transfers in	11,013,700	11,013,700	11,008,403	(5,297)
Operating transfers out	(3,356,018)	(3,356,018)	(223,731)	3,132,287
Total other financing sources (uses)	7,657,682	7,657,682	10,784,672	3,126,990
Excess (deficiency) of revenues and other sources over expenditures and other uses	39,242	(4,749,652)	524,487	5,274,139
FUND BALANCES AT BEGINNING OF BIENNIUM	1,761,246	1,761,246	2,129,637	368,391
FUND BALANCES AT END OF BIENNIUM	\$ 1,800,488	\$ (2,988,406)	\$ 2,654,124	\$ 5,642,530

CITY OF VANCOUVER**CONSOLIDATED FIRE FUND****STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
COMPARED TO BUDGET (GAAP BASIS) AND ACTUAL****Biennium Ended December 31, 2002**

	Budget Amounts		Actual Biennium- To- Date Thru 12/31/02	Variance Thru 12/31/02
	Original 2001-2002 Biennium	Final 2001-2002 Biennium		
REVENUES				
License and permits	0	0	\$ 243,493	\$ 243,493
Intergovernmental	\$ 10,715,000	\$ 10,715,000	10,172,018	(542,982)
Charges for services	0	0	28,392	28,392
Interest earnings	164,000	164,000	469,657	305,657
Contributions/donations	0	0	825	825
Other miscellaneous	200,000	200,000	253,495	53,495
Total revenues	11,079,000	11,079,000	11,167,880	88,880
EXPENDITURES				
Current:				
Security/persons & property	36,245,305	36,761,610	36,919,624	(158,014)
Total expenditures	36,245,305	36,761,610	36,919,624	(158,014)
Deficiency of revenues under expenditures	(25,166,305)	(25,682,610)	(25,751,744)	(69,134)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	25,469,200	25,469,200	25,590,518	121,318
Operating transfers out	0	0	(9,334)	(9,334)
Total other financing sources (uses)	25,469,200	25,469,200	25,581,184	111,984
Net change in fund balance	302,895	(213,410)	(170,560)	42,850
FUND BALANCES AT BEGINNING OF BIENNIUM	1,589,411	1,589,411	4,666,711	3,077,300
FUND BALANCES AT END OF BIENNIUM	\$ 1,892,306	\$ 1,376,001	\$ 4,496,151	\$ 3,120,150

The notes to the financial statements are an integral part of this statement

CITY OF VANCOUVER
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2002

	Enterprise Funds				(Governmental Activities)
	Water/Sewer	Off-Street Parking	Other Enterprise	Total	Internal Service Funds
ASSETS					
Current assets					
Cash, cash equivalents and pooled investments	\$ 79,589,124	\$ 616,938	\$ 8,892,541	\$ 89,098,603	\$ 12,611,531
Cash with fiscal/escrow agent	0	0	0	0	5,000
Receivables (net)					
Accounts	3,395,985	383,406	44,482	3,823,873	450
Due from other funds	268,770	0	94,359	363,129	21,169
Due from other governmental units	3,563	0	96,936	100,499	0
Inventory	579,879	0	175,301	755,180	0
Prepaid expenses	0	0	0	0	25,000
Total current assets	83,837,321	1,000,344	9,303,619	94,141,284	12,663,150
Noncurrent assets					
Restricted assets					
Cash and cash equivalents	1,873,981	116,619	436,038	2,426,638	0
Deferred charges	1,207,565	210,119	46,836	1,464,520	0
Contracts receivable	1,078,140	0	0	1,078,140	0
Capital assets					
Land and improvements	5,017,461	832,657	484,202	6,334,320	0
Construction in progress	5,039,899	13,391,588	1,215,409	19,646,896	0
Other improvements	406,577,435	49,166	669,573	407,296,174	0
Buildings	8,836,397	5,506,232	8,177,647	22,520,276	0
Intangible assets	2,549,446	0	0	2,549,446	0
Machinery and equipment	21,805,474	338,884	599,411	22,743,769	15,585,172
Less accumulated depreciation	(113,679,183)	(1,109,001)	(3,503,520)	(118,291,704)	(9,526,932)
Total noncurrent assets	340,306,615	19,336,264	8,125,596	367,768,475	6,058,240
TOTAL ASSETS	\$ 424,143,936	\$ 20,336,608	\$ 17,429,215	\$ 461,909,759	\$ 18,721,390

The notes to this financial statement are an integral part of this statement

CITY OF VANCOUVER
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2002

	Enterprise Funds				(Governmental Activities)
	Water/Sewer	Off-Street Parking	Other Enterprise	Total	Internal Service Funds
LIABILITIES					
Current liabilities					
Accounts payable	\$ 1,772,915	\$ 17,344	\$ 177,671	\$ 1,967,930	\$ 427,899
Claims and judgments payable	0	0	0	0	1,917,314
Due to other funds	0	14,171	31,131	45,302	5,396
Due to other governmental units	0	0	88	88	0
Accrued interest payable	930,648	67,025	28,578	1,026,251	0
Accrued employee benefits	610,803	19,507	250,515	880,825	134,272
Bonds, notes and loans payable	5,380,013	415,000	488,318	6,283,331	0
Total current liabilities	<u>8,694,379</u>	<u>533,047</u>	<u>976,301</u>	<u>10,203,727</u>	<u>2,484,881</u>
Noncurrent liabilities					
Custodial accounts	279,777	0	36,582	316,359	0
Advances from other funds	0	1,610,000	0	1,610,000	0
Bonds, notes and loans payable from restricted assets - current	1,873,981	0	942,509	2,816,490	0
Bonds, notes and loan payable	141,315,886	15,313,993	3,603,788	160,233,667	0
Accrued employee benefits	826,836	45,550	197,442	1,069,828	220,736
Total noncurrent liabilities	<u>144,296,480</u>	<u>16,969,543</u>	<u>4,780,321</u>	<u>166,046,344</u>	<u>220,736</u>
TOTAL LIABILITIES	<u>\$ 152,990,859</u>	<u>\$ 17,502,590</u>	<u>\$ 5,756,622</u>	<u>\$ 176,250,071</u>	<u>\$ 2,705,617</u>
NET ASSETS					
Invested in capital assets, net of related debt	\$ 189,727,948	\$ 1,799,456	\$ 3,876,075	\$ 195,403,479	\$ 6,058,240
Restricted for capital purposes	0	116,619	0	116,619	0
Unrestricted	81,425,129	917,943	7,796,518	90,139,590	9,957,533
TOTAL NET ASSETS	<u>\$ 271,153,077</u>	<u>\$ 2,834,018</u>	<u>\$ 11,672,593</u>	<u>\$ 285,659,688</u>	<u>\$ 16,015,773</u>

The notes to this financial statement are an integral part of this statement

CITY OF VANCOUVER
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Fiscal Year Ended December 31, 2002

	Enterprise Funds				(Governmental Activities)
	Water/Sewer	Off-Street Parking	Other Enterprise	Total	Internal Service Funds
OPERATING REVENUES					
Charge for services	\$ 44,883,802	0	\$ 8,152,079	\$ 53,035,881	\$ 14,097,897
Fines and forfeits	0	\$ 571,781	14,690	586,471	0
Rents and royalties	363,731	780,115	473,240	1,617,086	0
Insurance recoveries	0	0	0	0	628,387
Miscellaneous	716,197	52,875	23,869	792,741	264,327
Total operating revenues	<u>45,963,730</u>	<u>1,404,571</u>	<u>8,663,878</u>	<u>56,032,179</u>	<u>14,990,611</u>
OPERATING EXPENSES					
Personnel services	9,560,643	275,482	3,392,224	13,228,349	1,810,755
Supplies and contractual services	20,469,468	322,765	2,467,653	23,259,886	12,586,038
Interfund services	4,929,599	178,681	1,530,981	6,639,261	542,475
Depreciation	11,200,398	279,845	342,546	11,822,789	1,582,838
Total operating expenses	<u>46,160,108</u>	<u>1,054,773</u>	<u>7,733,404</u>	<u>54,948,285</u>	<u>16,522,106</u>
Operating income (loss)	(196,378)	349,798	930,474	1,083,894	(1,531,495)
NONOPERATING REVENUES (EXPENSES)					
Interest earnings	2,675,859	709,546	311,613	3,697,018	360,850
State and federal grants	24,642	0	1,085,145	1,109,787	0
Interest and fiscal charges	(8,941,906)	(1,031,261)	(295,056)	(10,268,223)	0
Loss on disposal of assets	(508)	0	(5,982)	(6,490)	10,658
Miscellaneous revenue (expense)	3,797,220	0	0	3,797,220	1,317
Total nonoperating revenues (expenses)	<u>(2,444,693)</u>	<u>(321,715)</u>	<u>1,095,720</u>	<u>(1,670,688)</u>	<u>372,825</u>
Income (loss) before contributions and transfers	(2,641,071)	28,083	2,026,194	(586,794)	(1,158,670)
Capital contributions	13,022,954	0	0	13,022,954	195,796
Transfers in	253,440	619,000	192,742	1,065,182	0
Transfers out	(59,118)	0	(264,000)	(323,118)	0
Change in net assets	<u>10,576,205</u>	<u>647,083</u>	<u>1,954,936</u>	<u>13,178,224</u>	<u>(962,874)</u>
TOTAL NET ASSETS - BEGINNING	258,830,312	2,186,835	9,717,657	270,734,804	16,978,647
Prior year adjustments	1,746,560	0	0	1,746,560	0
TOTAL NET ASSETS - ENDING	<u>\$ 271,153,077</u>	<u>\$ 2,834,018</u>	<u>\$ 11,672,593</u>	<u>\$ 285,659,688</u>	<u>\$ 16,015,773</u>

The notes to the financial statements are an integral part of this statement

CITY OF VANCOUVER
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended December 31, 2002

(Page 1 of 2)

	Enterprise Funds				(Governmental Activities)
	Water/Sewer	Off-Street Parking	Other Enterprise	Total	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers	\$ 46,556,250	\$ 971,981	\$ 8,606,376	\$ 56,134,607	\$ 14,113,428
Cash received from other operating activities	716,197	54,716	2,066	772,979	892,714
Cash payments for goods and services	(19,163,813)	(307,367)	(2,602,633)	(22,073,813)	(11,552,892)
Internal activity - payments to other funds	(4,929,599)	(162,510)	(1,259,039)	(6,351,148)	(542,475)
Cash payments to employees	(9,391,238)	(246,949)	(3,350,924)	(12,989,111)	(1,872,890)
Net cash provided by operating activities	<u>13,787,797</u>	<u>309,871</u>	<u>1,395,846</u>	<u>15,493,514</u>	<u>1,037,885</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Payment for interest on debt	0	0	(87,496)	(87,496)	0
Principal paid on debt	0	0	(265,000)	(265,000)	0
Proceeds from interfund notes	0	0	0	0	(5,521)
Receipt of grant funds	0	0	1,049,104	1,049,104	0
Transfers from other funds	0	619,000	180,961	799,961	0
Operating subsidies and transfers to other funds	(59,118)	0	(264,000)	(323,118)	0
Net cash used by noncapital financing activities	<u>(59,118)</u>	<u>619,000</u>	<u>613,569</u>	<u>1,173,451</u>	<u>(5,521)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Increase in receivables	0	0	(66,929)	(66,929)	0
Principal paid on capital debt	(18,006,748)	(13,985,000)	(2,796,072)	(34,787,820)	0
Interest paid on capital debt	(8,015,911)	(1,072,670)	(212,673)	(9,301,254)	0
Purchase of capital assets	(3,824,191)	(13,243,765)	(1,215,409)	(18,283,365)	(875,840)
Proceeds from sale of capital assets	0	0	0	0	15,615
Receipt of claim settlement	3,796,712	0	0	3,796,712	0
Proceeds from capital debt	11,310,000	13,000,000	2,847,534	27,157,534	0
Payment of debt issuance costs	(178,938)	(735,001)	(222,192)	(1,136,131)	0
Transfers from other funds	0	1,610,000	0	1,610,000	0
Capital contributions	8,106,218	0	15,082	8,121,300	0
Net cash provided by capital and related financing activities	<u>(6,812,858)</u>	<u>(14,428,436)</u>	<u>(1,650,659)</u>	<u>(22,889,953)</u>	<u>(859,925)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Receipt of interest	2,741,960	905,151	385,513	4,032,624	579,776
Receipt of notes receivable or interfund loan	281,052	0	0	281,052	0
Issuance of notes receivable or interfund loan	(653,561)	0	0	(653,561)	0
Purchase of investments	55,969,111	0	0	55,969,111	0
Proceeds from sales of investments	0	12,961,330	6,323,307	19,284,637	9,182,871
Net cash used in investing activities	<u>58,338,562</u>	<u>13,866,481</u>	<u>6,708,820</u>	<u>78,913,863</u>	<u>9,762,649</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>65,254,383</u>	<u>368,916</u>	<u>7,067,576</u>	<u>72,690,875</u>	<u>9,835,088</u>
CASH AND CASH EQUIVALENTS - BEGINNING	<u>16,208,722</u>	<u>364,641</u>	<u>2,261,003</u>	<u>18,834,366</u>	<u>2,676,443</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 81,463,105</u>	<u>\$ 733,557</u>	<u>\$ 9,328,579</u>	<u>\$ 91,525,241</u>	<u>\$ 12,611,531</u>
Cash and cash equivalents	\$ 79,589,124	\$ 616,938	\$ 8,892,541	\$ 89,098,603	\$ 12,611,531
Restricted cash and cash equivalents	1,873,981	116,619	436,038	2,426,638	0
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 81,463,105</u>	<u>\$ 733,557</u>	<u>\$ 9,328,579</u>	<u>\$ 91,525,241</u>	<u>\$ 12,611,531</u>

The notes to the financial statements are an integral part of this statement

CITY OF VANCOUVER
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended December 31, 2002

(Page 2 of 2)

	Enterprise Funds				(Governmental Activities)
	Water/Sewer	Off-Street Parking	Other Enterprise	Total	Internal Service Funds
Reconciliation of operating income (loss) to net cash used by operating activities:					
Net operating income (loss)	\$ (196,378)	\$ 349,798	\$ 930,474	\$ 1,083,894	\$ (1,531,495)
Adjustments to reconcile net operating income (loss) to net cash provided by operations:					
Depreciation expense	11,200,398	279,845	342,546	11,822,789	1,582,838
(Increase) Decrease in receivables	1,308,717	(377,874)	(39,037)	891,806	15,530
(Increase) Decrease in inventories	136,211	0	(21,801)	114,410	0
(Increase) Decrease in prepaid assets	44,370	0	(10,248)	34,124	(6,500)
Increase (Decrease) in current payables	1,140,405	15,398	152,610	1,308,413	1,039,646
Increase (Decrease) in accrued employee benefits	169,405	28,533	41,300	239,238	(62,134)
Increase (Decrease) in payables due to other funds	0	14,171	0	14,171	0
Payment of claim settlement	(15,331)	0	0	(15,331)	0
Total adjustments	<u>13,984,175</u>	<u>(39,927)</u>	<u>465,372</u>	<u>14,409,620</u>	<u>2,569,380</u>
Net cash provided by operating activities	\$ <u>13,787,797</u>	\$ <u>309,871</u>	\$ <u>1,395,846</u>	\$ <u>15,493,514</u>	\$ <u>1,037,885</u>
Noncash investing, financing and capital activities					
Capital assets donated	\$ 4,937,816	0	0	\$ 4,937,816	\$ 195,796
Loans to customers for connection to utility	(82,433)	0	0	(82,433)	0
Net change in fair value of investments	854,889	\$ 7,699	\$ 97,897	960,485	132,356
Disposal of capital assets	0	0	0	0	(385,463)

The notes to the financial statements are an integral part of this statement

CITY OF VANCOUVER
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
December 31, 2002

	Pension Trust Funds	Agency Funds	Total
ASSETS			
Cash, cash equivalents and pooled investments	\$ 1,205,761	\$ 2,072,549	\$ 3,278,310
Investments (at fair value)	5,019,192	0	5,019,192
Receivables:			
Interest	69,004	0	69,004
Accounts	158,964	380,692	539,656
Prepaid expenses	30,215	0	30,215
TOTAL ASSETS	6,483,136	2,453,241	8,936,377
LIABILITIES			
Vouchers and accrued employee payables	25,459	91,041	116,500
Due to other governmental units	0	2,362,200	2,362,200
TOTAL LIABILITIES	25,459	2,453,241	2,478,700
NET ASSETS			
Held in trust for pension benefits	\$ 6,457,677	\$ 0	\$ 6,457,677

The notes to the financial statements are an integral part of this statement

CITY OF VANCOUVER
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
For The Year Ended December 31, 2002

	<u>Pension Trust Funds</u>
Additions:	
Employer Contributions	
For pension benefits	\$ 859,083
For postemployment healthcare benefits	<u>688,435</u>
Total Contributions	<u>1,547,518</u>
Investment Income	
Interest earnings	<u>559,715</u>
Total Investment Income	<u>559,715</u>
Total Additions	<u>2,107,233</u>
Deductions:	
Pension benefits	941,345
Healthcare premium subsidies	688,436
Administrative expense	<u>9,603</u>
Total Deductions	<u>1,639,384</u>
Net Increase in fiduciary net assets	467,849
Net assets - beginning	<u>5,989,828</u>
Net assets - ending	<u>\$ 6,457,677</u>

The notes to the financial statement are an integral part of this statement

CITY OF VANCOUVER

NOTES TO FINANCIAL STATEMENTS

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Vancouver conform to generally accepted accounting principles as applied to city governments. The following is a summary of the more significant policies:

A. REPORTING ENTITY

The City of Vancouver was incorporated January 23, 1857. The city operates under a Council-Manager form of government and provides services per its charter adopted February 10, 1952, and last amended September 17, 1996.

The Comprehensive Annual Financial Report of the City of Vancouver includes the primary government and its component units, entities for which the city is considered to be financially accountable. The discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the government.

Discretely Presented Component Units:

The Vancouver Area Development Authority (VADA) is a special purpose government established in 1986 to carry out two basic functions: (1) to operate and maintain the City of Vancouver's historic officer housing, turned over to the city by the United States Government on September 4, 1984; and (2) to develop various other city properties to improve city livability through economic development. The VADA Board is composed of seven (7) members who are appointed by the City Council of Vancouver. The city is able to impose its will on VADA; however, VADA's services do not exclusively or almost exclusively benefit the City of Vancouver. Therefore, financial statements are discretely presented as a business type activity in the city's annual financial report.

The Public Facilities District (PFD) is a special purpose government established to develop a Hotel/Convention Center in downtown Vancouver. The PFD board is comprised of five (5) members appointed by the City Council of Vancouver. The city is able to impose its will on the district; however, PFD's services do not exclusively or almost exclusively benefit the City of Vancouver. Therefore, financial statements are discretely presented as a business type activity in the city's annual financial report.

Unless noted otherwise in this report, the accounting policies of the component units are consistent with those described for the primary government. VADA and PFD issue separate financial statements which can be obtained from the City of Vancouver.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Fund financial statements are separate financial statements provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

CITY OF VANCOUVER

NOTES TO FINANCIAL STATEMENTS

The *street fund* was established for the administration of street oriented maintenance and construction.

The *consolidated fire fund* accounts for money received and the expenditures made in providing fire services to the combined City and Fire District 5 service area.

The *transportation capital fund* was established to account for all capital projects in the transportation department.

The government reports the following major proprietary fund:

The *water and sewer fund* accounts for the activities of the city's utility. Its revenues are received from the sales of materials and supplies. Expenses are for maintenance and extensions of drainage, water and sewer service facilities, operating a water supply system, maintaining sewer treatment plants and operating a water drainage system. This fund also reflects the operation of revenue bonds outstanding, the funds available for redemption of bonds, cumulative reserve and construction funds.

The *off-street parking fund* accounts for revenues received from the operations of city owned or operated public parking lots. Expenses are directly related to the operation and maintenance of those facilities.

Additionally, the government reports the following fund types:

Debt service funds account for the resources accumulated and payments made for principal and interest on the general government except those required to be accounted for in another fund.

Special revenue funds account for the proceeds of specific revenue sources to finance specific activities as required by law or administrative regulation. Their revenues are earmarked to finance certain activities or functions.

Capital project funds account for the acquisition or development of capital facilities for governmental activities. Their major sources of revenues are from proceeds from general obligation bonds, grants from other agencies and contributions from other funds.

Internal service funds account for data processing and fleet management services provided to other departments or agencies of the government, or to other governments on a cost reimbursement basis.

The *pension trust funds* accounts for the activities of the Police Pension funds and the Firemen's Pension funds, which accumulates resources for pension benefit payments to qualified public safety employees.

Agency funds represent assets held in a trustee or agency capacity for others and do not report results of operations.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. Basis relates to the timing of the measurements made, regardless of the measurement focus applied.

Governmental fund financial statements report the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgements, are recorded only when payment is due. Certain indirect costs have been included as part of the program expenses reported for the various functional activities.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the city.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

CITY OF VANCOUVER

NOTES TO FINANCIAL STATEMENTS

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water Sewer Enterprise fund, of the Off-Street Parking Enterprise fund, of the non-major enterprise funds, and of the government's internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

1. Deposits and investments

The city's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash resources of individual funds are invested directly into government securities with interest accruing for the benefit of the specific fund. This policy covers all funds operated by the city. Cash resources required for immediate reasons (within the next month) are invested to the extent possible in short-term investments such as repurchase agreements with interest accruing to the benefit of each individual fund based on the monthly average cash balance of each fund.

Statutes authorize the city to invest in obligations of the U.S. Treasury, U.S. Agencies, and instrumentality's, banker's acceptances, repurchase agreements, and the state treasurer's investment pool. The city is also authorized to enter into reverse repurchase agreements, but did not participate in these investments during 2002. The Pension Trust Fund is also authorized to invest in corporate bonds rated A or better by Standard & Poor's Corporation, or A or better by Moody's Bond Ratings

Investments for the city, as well as for its component units, are reported at fair value. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares. The city as of December 31, 2002 had \$56,367,235 the Washington State local investment pool and \$2,655,683 in the Clark County Local Government Investment Pool, which was classified as cash equivalents.

For purposes of the statement of cash flows, the city considers the state and local government investment pools and all highly liquid investments with a maturity of three months or less to be cash equivalents.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 180 days comprise the trade accounts receivable allowance for uncollectibles.

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Taxes are levied annually before December 15, and become a lien as of January 1, on property value listed as of the prior May 31. Assessed values are established by the county assessor at 100 percent of fair market value. A revaluation of all property is required every four years.

Taxes are due in two equal installments on April 30 and October 31. The county treasurer remits collections monthly to the appropriate district. Taxes receivable consists of property taxes and related interest and penalties. (See Note IV J) Accrued interest receivable consists of amounts earned on investments, notes and contracts at the end of the year.

CITY OF VANCOUVER

NOTES TO FINANCIAL STATEMENTS

Special assessments are recorded when levied. Special assessments receivable consists of current and delinquent assessments and related interest and penalties. Deferred assessments consist of unbilled special assessments that are liens against the property benefited.

Customer accounts receivable consists of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared. Notes and contracts receivable consists of amounts owed on open account from private individuals or organizations for goods and services rendered.

3. Inventories and prepaid items

The inventory carried by the Water-Sewer Fund is valued at average cost and is average cost when issued. A physical count is taken once a year. The inventory in the Storeroom Fund is valued at cost and is charged out at cost plus an 11% handling fee when issued. Inventory for the Fire Shop Fund is valued at cost and is charged out at cost plus 15%. Items purchased from inventory are disbursed on a first-in-first-out basis.

Inventories of governmental funds are recorded as expenditures when purchased rather than when consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Restricted assets

These accounts contain resources for construction and debt service in enterprise funds. Certain proceeds of the Water Sewer enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they may be maintained in separate bank accounts and their use is limited by applicable bond covenants.

The current portion of related liabilities are shown as Payables from Restricted Assets. Specific debt service reserve requirements are described in Note IV, Sec. H.

5. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the city as assets with an initial, individual cost of more than \$10,000 (amount not rounded) and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

<u>Asset Category</u>	<u>Useful Life</u>
Buildings	20
Infrastructure	40
Structures	20-35
Leasehold Improvements	5
Utility Improvements	20-50
Other Improvements	5
Rolling Stock	5-15
Information Tech Equipment	4
Equipment	5
Software	5

The city has acquired certain assets with funding provided by federal financial assistance programs. Depending on the terms of the agreements involved, the federal government could retain an equity interest in these assets. However, the city has sufficient legal interest to accomplish the purposes for which the assets were acquired, and has included such assets within the applicable column in the statement of net assets.

CITY OF VANCOUVER

NOTES TO FINANCIAL STATEMENTS

6. Compensated absences

It is the city's policy to permit employees to accumulate earned but unused vacation benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

7. Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premium and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS

The governmental fund balance sheet includes a reconciliation between *fund balance—total governmental funds* and *net assets—governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this difference are as follows:

Bonds Payable	\$ (58,648,540)
Less: Deferred charge on refunding (to be amortized as interest expense)	2,071,279
Plus: Issuance premium (to be amortized as interest income)	(2,419,063)
Accrued Interest Payable	(199,920)
Due to other governments	(395,073)
Special assessment debt	(167,687)
Capital lease payable	(418,796)
Net Pension Obligation	0
Compensated Absences	(5,635,961)
Net adjustment to reduce fund balance - total governmental funds to arrive at <i>net assets - governmental activities</i>	\$ <u>(65,813,761)</u>

B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances—total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental

CITY OF VANCOUVER

NOTES TO FINANCIAL STATEMENTS

funds report capital outlays as expenditures." However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this difference are as follows:

Capital Outlay	\$ 21,765,212
Depreciation expense	(5,546,973)
Net adjustment to increase <i>net changes in fund balances</i> -total governmental funds to arrive at <i>changes in net assets of governmental activities</i>	\$ 16,218,239

Another element of that reconciliation states that "the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this \$823,637 difference are as follows:

Debt issued or incurred:	
Issuance of general obligation bonds	\$ (23,714,020)
Plus premiums	(2,380,931)
Deferred refunding debt	1,999,093
Deferred issuance costs	336,053
Principal repayments:	
General obligation debt	24,530,234
Special assessment debt	24,344
Payment on capital lease	28,864
Net adjustment to decrease <i>net changes in fund balances</i> —total governmental funds to arrive at <i>changes in net assets of governmental activities</i>	\$ 823,637

Another element of that reconciliation states that "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of this \$112,030 difference are as follows:

Compensated absences	\$ (111,028)
Pension Obligation	96,180
Accrued interest	173,706
Amortization of issuance costs/deferred amount on refunding	(70,518)
Amortization of bond discounts/premiums	23,690
Net adjustment to decrease <i>net changes in fund balances</i> —total governmental funds to arrive at <i>changes in net assets of governmental activities</i>	\$ 112,030

NOTE III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY INFORMATION

The city prepares a biennial budget for all funds in accordance with the Municipal Code 35.33 of the Revised Code of Washington that is on a basis consistent with generally accepted accounting principles. All funds except custodial agency funds are budgeted to the fund level. Council may only approve any increase in expenditures above the amounts authorized by the original budget ordinance. Biennially appropriated budgets are adopted for the general, certain special revenue, debt service, proprietary and pension trust funds. Certain special revenue funds and capital project funds adopt project length budgets.

Budget amounts shown in the basic financial statements include the original budget amounts and all appropriation transfers and adjustments approved by the City Manager or City Council, as required. The City Manager is authorized as the chief executive officer to approve intra-fund budget transfers from one department to another or between line items of the same department. The City Council only has the authority to increase or decrease a given fund's annual budget. This is executed by city ordinance.

CITY OF VANCOUVER

NOTES TO FINANCIAL STATEMENTS

The calendar below outlines the process for preparing, reviewing and adopting the Biennial Budget. In addition, since the process for developing the Biennial Budget begins early in the off year, and revenue and expenditure estimates are based on approximately six months of actual data, state statutes provide for a mid-biennial review and modification of the Biennial Budget. Modifications are proposed by departments and reviewed by Budget Office staff in conjunction with the City Manager and his/her management team. The changes must be presented to the City Council no later than the third week of October of the first year of the Biennial Budget for an effective date of January 1st of the second year. Adoption by the City Council requires a public hearing in the month of November. In addition, the city typically adopts a clean-up ordinance at the end of each fiscal year to ensure all expenditures are appropriated by ordinance and interfund borrowing are authorized by the City Council. As is the case for all ordinances, a public hearing is required. These procedures are in accordance with RCW's:

JANUARY-MARCH

- Began Strategic Plan update process.
- Completed a Community Survey – a statistically valid random sample.
- Updated the budget calendar and modified the City's Budget Preparation Information System.

APRIL-JUNE

- Met with City Council to revise the City's Budget Policies and Guidelines
- Conducted focus groups with members of the community and City employees to better understand community and organization priorities.
- Finalized the budget process. This year's process included initial allocations to departments that were less than 100% of their expected 2001-2002 expenses.
- Developed a budget preparation manual and oriented department staff on the budget process and the modifications to the Budget Preparation Information System.
- Provided departments with initial budget allocations and access to the Budget Preparation Information System where they distributed their initial allocations to programs.

JULY-SEPTEMBER

- Updated the City's Strategic Plan including six new strategic commitments
- Met with department staff to review their initial budget submissions.
- Developed a five-year revenue and expense forecast.
- Assessed proposed capital facilities needs for 2001-2006.
- Held televised workshops with City Council on the budget process, financial forecast and Capital Facilities needs.

OCTOBER-DECEMBER

- Developed the City Manager's Preliminary Recommended budget.
- Presented the Preliminary Recommended Budget to City Council in televised workshop sessions and provided Council members with a detailed notebook on the proposed budget.
- Held a televised public forum on the City Manager's Preliminary Recommended Budget.
- Filed the City's Preliminary Budget with the City Clerk and made copies available to the public.
- Held workshop sessions with the City Council in November.
- Held two Public Hearings on the Preliminary Recommended Budget in December
- City Council adopted the City's 2002 property tax levy and 2001-2002 Budget in December.

The final budget as adopted is published within the first three months of the new budget year, distributed to various agencies such as: neighborhood associations, the Chamber of Commerce, and made available to all interested citizens.

Biennial appropriations lapse at the end of the biennium. Budgets established within a fund on a project basis do not lapse, but are carried forward from year-to-year until fully expended or the project is completed or abandoned, without necessity of re-appropriation. Proprietary funds are budgeted on the full accrual basis and are for management control.

CITY OF VANCOUVER

NOTES TO FINANCIAL STATEMENTS

NOTE IV: DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

1. Deposits

At year-end, the city's carrying amount of deposits was \$4,746,654 and the bank balance was \$6,618,533. The Federal Deposit Insurance Corporation (FDIC) insures the city's deposit and investments up to \$100,000. All deposits and bank and investment pools not covered by FDIC are covered under the State of Washington Public Deposit Protection Commission Act of 1969. Total public deposits may not exceed one and one-half times its net worth or 30% of the total public funds on deposit statewide in each qualified public depository. If public deposits exceed either of these limitations, it must collateralize the excess at 100%. These deposits are classified under risk Category 1.

2. Investments

The City maintains an Internal Investment Pool. The Pool has an average maturity of approximately nine months. Some funds are invested for the benefit of the respective fund. Remaining monies are aggregated in a residual account, and invested in the pool for the benefit of all funds. As required by state law, all investments of the city funds are obligations of the U.S. Government, U.S. agency issues, the State Treasurer's Investment Pool, or the Clark County Investment Pool. As of December 31, 2002, the fair value of the City's investment portfolio was \$191,996,333, of which \$5,049,279 was invested in money market accounts, \$5,019,192 was invested on behalf of the Firemen's Pension Fund, and \$181,924,345 was invested in the City's Internal Investment Pool for the benefit of all funds. Investments of pension/non-expendable trust funds are not subject to the preceding limitations under state law.

Investments are categorized into these three categories of credit risk:

- (1) Insured or registered, or securities held by the government or its agent in the government's name.
- (2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the government's name.
- (3) Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the government's name.

All investments were found to be Category 1 type investments, with the exception of the investments held in the Washington State Local Government Investment Pool and the Clark County Investment Pool, which are not categorized.

Investment Portfolio	
Category 1	
(In Thousands)	
Carrying	Fair
Amount	Value
Corporate Bonds	\$ 2,948 \$ 3,134
U.S. Government Agencies	122,767 124,790
Total Category 1 Investments	125,715 127,924

Investments not subject to categorization:

Washington State Investment Pool	56,367	56,367
Clark County Investment Pool	2,656	2,656
Total Investments *	\$ 184,738	\$ 186,947

* Fair value of pooled investments does not include adjustments made for accrued interest distributed to pooled participants.

During 2002 the city was in compliance with all statutes pertaining to the investment of city moneys.

CITY OF VANCOUVER

NOTES TO FINANCIAL STATEMENTS

A reconciliation of cash, cash equivalents (including pooled investments) and investments as shown in the government-wide and fund financial statements is as follows:

<u>Notes</u>	
Investments	\$ 186,947,053
Deposits	4,746,654
Deposits w/Fiscal Agent, Escrow, Trust	421,504
Accrued Interest	<u>1,446,684</u>
Total	<u>\$ 193,561,895</u>

<u>Financial Statements</u>	
Cash and cash equivalents	\$ 181,544,570
Cash and cash equivalents – Component Units	865,305
Restricted Cash	2,426,638
Restricted Cash – Component Units	6,375
Cash with fiscal agent/trustee	34,043
Cash with fiscal agent/trustee – Component units	387,461
Fiduciary Cash	3,278,311
Fiduciary Investments	<u>5,019,192</u>
Total	<u>\$ 193,561,895</u>

B. RECEIVABLES

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but have not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Property taxes receivable -not yet due (general fund)	\$ 30,173,775	\$ 0
Delinquent property taxes receivable (general fund)	1,347,396	0
Special assessments not yet due (debt service fund)	124,300	0
Developer payments not yet spent	<u>0</u>	<u>21,580</u>
Total deferred/unearned revenue for governmental funds	<u>\$ 31,645,471</u>	<u>\$ 21,580</u>

CITY OF VANCOUVER

NOTES TO FINANCIAL STATEMENTS

C. CAPITAL ASSETS

A summary of capital asset activity for the year ended December 31, 2002 was as follows:

	Beginning Balance 01/01/02	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 31,943,906	\$ 5,530,881	\$ 0	\$ 37,474,787
Construction in progress	29,120,424	13,185,898	14,120,321	28,186,001
Total capital assets, not being depreciated	<u>61,064,330</u>	<u>18,716,779</u>	<u>14,120,321</u>	<u>65,660,788</u>
Capital assets, being depreciated/depleted:				
Cemetery land	363,935	420,412	0	784,347
Buildings	32,369,014	3,838,141	0	36,207,155
Machinery and equipment	25,313,291	6,397,005	455,713	31,254,583
Improvements other than buildings	<u>78,909,176</u>	<u>7,731,259</u>	<u>0</u>	<u>86,640,435</u>
Total capital assets being depreciated	<u>136,955,416</u>	<u>18,386,817</u>	<u>455,713</u>	<u>154,886,520</u>
Less accumulated depreciation for:				
Cemetery Land	0	428,027	0	428,027
Buildings	9,000,755	1,088,828	0	10,089,583
Machinery and equipment	12,649,566	3,275,618	424,573	15,500,611
Improvements other than buildings	<u>1,858,576</u>	<u>2,337,338</u>	<u>0</u>	<u>4,195,914</u>
Total accumulated depreciation	<u>23,508,897</u>	<u>6,701,784</u>	<u>424,573</u>	<u>30,214,135</u>
Total capital assets, being depreciated, net	<u>113,446,519</u>	<u>11,685,033</u>	<u>31,140</u>	<u>124,672,385</u>
Governmental activities capital assets, net	<u>\$ 174,510,849</u>	<u>\$ 30,401,812</u>	<u>\$ 14,151,461</u>	<u>\$ 190,333,173</u>

CITY OF VANCOUVER

NOTES TO FINANCIAL STATEMENTS

	Restated Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 6,334,320	0	0	\$ 6,334,320
Construction in progress	3,131,165	\$ 18,531,558	\$ 2,015,827	19,646,896
Total capital assets, not being depreciated	9,465,485	18,531,558	2,015,827	25,981,216
Capital assets, being depreciated:				
Buildings and system	22,504,016	16,260	0	22,520,276
Improvements other than buildings	400,626,371	6,669,803	0	407,296,174
Machinery and equipment	23,527,269	1,765,946	0	25,293,215
Total capital assets, being depreciated	446,657,656	8,452,009	0	455,109,665
Less accumulated depreciation for:				
Buildings and system	5,185,125	665,733	0	5,850,858
Improvements other than buildings	92,882,283	9,323,583	0	102,205,866
Machinery and equipment	8,401,508	1,833,472	0	10,234,980
Total accumulated depreciation	106,468,916	11,822,788	0	118,291,704
Total capital assets, being depreciated, net	340,188,740	(3,370,779)	0	336,817,961
Business-type activities capital assets, net	349,654,225	\$ 15,160,779	\$ 2,015,827	\$ 362,799,177

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 734,060
Security of persons and property	805,463
Physical environment	428,027
Transportation, including depreciation of general infrastructure assets	2,161,906
Economic environment	371,530
Culture and recreation	1,045,987
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	1,582,838
Total depreciation expense—governmental activities	<u>\$ 7,129,811</u>

Business-type activities:

Water/Sewer	\$ 11,200,398
Airpark	168,703
Building Inspection	137,161
Sanitation	5,137
Parking	279,845
Tennis Center	31,545
Total depreciation expense—business-type activities	<u>\$ 11,822,789</u>

CITY OF VANCOUVER

NOTES TO FINANCIAL STATEMENTS

D. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Loans between funds are classified as interfund loans receivable or payable or as advances to and from other funds on the statement of net assets. Within the city, one fund may borrow from another when specifically authorized by council resolution. Due to other funds and due from other funds result from goods issued, work performed or services rendered to or for the benefit of another fund of the same government. The following table displays interfund loan activity during the year 2002:

	Interfund Loans Receivable	Interfund Loans Payable	Due from Other Funds	Due to Other Funds
<i>Governmental Activities</i>				
General Fund	\$ 308,185	0	\$ 192,599	\$ 102,010
Street Fund	0	0	0	141,986
Consolidated Fire	0	0	0	0
Transportation Capital	0	0	139,444	0
Nonmajor governmental funds	0	\$ 308,185	10,610	432,257
Internal Service funds	0	0	21,169	5,396
Subtotal governmental activities	<u>308,185</u>	<u>308,185</u>	<u>363,822</u>	<u>681,649</u>
<i>Business type Activities</i>				
Water-Sewer	0	0	268,770	0
Parking	0	0	0	14,171
Nonmajor enterprise funds	0	0	94,359	31,131
Subtotal business activities	<u>0</u>	<u>0</u>	<u>363,129</u>	<u>45,302</u>
Total government wide	<u>\$ 308,185</u>	<u>\$ 308,185</u>	<u>\$ 726,951</u>	<u>\$ 726,951</u>

Interfund transfers are the flow of assets without a reciprocal return of assets, goods or services. These are transfers to support other funds without a requirement for repayment. The interfund transfer activity for the year is as follows:

Transfers Out						
Transfer In:	General fund	Consolidated Fire	Non-Major Governmental Funds	Water /Sewer	Non-Major Enterprise Funds	Total
General Fund	0	0	\$ 40,780	\$ 57,368	\$ 264,000	\$ 362,148
Consolidated Fire	\$ 12,940,320	0	0	0	0	12,940,320
Street Fund	5,639,215	0	0	0	0	5,639,215
Transportation Capital	623,500	0	9,615,639	0	0	10,239,139
Non-Major Governmental Funds	4,526,755	\$ 9,334	2,610,493	1,750	0	7,148,332
Water Sewer	0	0	253,440	0	0	253,440
Off-Street Parking	619,000	0	0	0	0	619,000
Non-Major Enterprise Funds	192,742	0	0	0	0	192,742
Total	<u>\$ 24,541,532</u>	<u>\$ 9,334</u>	<u>\$ 12,520,352</u>	<u>\$ 59,118</u>	<u>\$ 264,000</u>	<u>\$ 37,394,336</u>

There were no significant transfers made during 2002 that do not occur on a routine basis or are inconsistent with the activities of the fund making the transfer.

CITY OF VANCOUVER

NOTES TO FINANCIAL STATEMENTS

E. SEGMENT INFORMATION

The city maintains eight enterprise funds, which provide water-sewer, airpark, building inspection, sanitary (solid waste), parking, fire shop, tennis/racquetball, and city property development services. The only required fund to display segment information is the sanitary fund which contracts for garbage services and receives a franchise fee from the contractor. Segment information for the year-end is provided below:

	<u>Sanitary</u>
<i>Condensed Statement of net assets</i>	
Assets	
Current assets	\$ 4,741,718
Capital assets	101,880
Other assets	446,985
Total Assets	<u>5,290,583</u>
Liabilities	
Current	424,150
Long-term	959,328
Total liabilities	<u>1,383,478</u>
Net Assets	
Invested in capital assets, net of related debt	101,880
Unrestricted	3,805,225
Total net assets	<u>\$ 3,907,105</u>
<i>Condensed Statement of revenues, expenses and changes in net assets</i>	
Operating revenues (pledged against bonds)	\$ 2,718,687
Depreciation expense	(5,137)
Other operating expenses	(2,227,711)
Operating income	<u>485,839</u>
Nonoperating revenues (expenses)	
Interest earnings	167,329
Interest and fiscal charges	(95,172)
Transfers out	(264,000)
Change in net assets	293,996
Beginning net assets	3,613,109
Ending net assets	<u>\$ 3,907,105</u>
<i>Condensed statement of cash flows</i>	
Net cash provided by operating activities	\$ 606,181
Net cash used for noncapital financing activities	(616,496)
Net cash used for capital and related financing activities	(62,466)
Net cash provided by investing activities	3,923,762
Net increase	3,850,981
Beginning cash and cash equivalents	1,301,689
Ending cash and cash equivalents	<u>\$ 5,152,670</u>

CITY OF VANCOUVER

NOTES TO FINANCIAL STATEMENTS

F. RESTRICTED ASSETS

The balances of the restricted asset accounts in the enterprise funds are as follows:

	Amount
Revenue bond debt service account - Water Sewer	\$ 1,873,981
Bond construction account - Off-Street Parking	116,619
Revenue bond debt service account - Sanitation	436,038
	<u>\$ 2,426,638</u>

G. LEASE AGREEMENTS

OPERATING LEASES

The City is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore the results of the lease agreements are not reflected in City's statement of net assets. For the year ended December 31, 2002, the costs for such leases were \$225,674 and \$226,137 for governmental and business-type activities, respectively.

The following is a schedule of minimum future rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2002:

	Governmental Activities	Business-type Activities
2003	\$ 764,875	\$ 487,725
2004	625,021	484,725
2005	625,021	483,225
2006	625,021	481,125
2007	128,478	324,351
2008-2012	0	973,104
2013-2017	0	840,000
2018-2020	0	504,000
Total Minimum Lease payments required	<u>\$ 2,768,416</u>	<u>\$ 4,578,255</u>

CAPITAL LEASES

The city has entered into a lease agreement as lessee for financing the acquisition of land for a hotel/convention center. Terms of the lease include a balloon payment of \$208,000 in April of 2008. The implied interest rate of the lease is 5.53%. The city also has financed the acquisition of Airpark hangars. The leased assets and related obligations are accounted for in the statement of net assets. The net capital lease amounts shown below reflect those continuing to be financed through capital leases. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. The minimum capital lease payments reflect the remaining capital obligations on these assets.

CITY OF VANCOUVER

NOTES TO FINANCIAL STATEMENTS

Net Capital Lease Assets	Governmental Activities	Business-type Activities
Land	\$ 498,750	0
Buildings	0	\$ 323,184
Less Accumulated Depreciation	0	(62,617)
	<u>\$ 498,750</u>	<u>\$ 260,567</u>

Minimum Capital Lease Payments	Governmental Activities	Business-type Activities
2003	\$ 54,489	\$ 36,564
2004	56,123	0
2005	57,808	0
2006	59,542	0
2007	61,328	0
2008	224,546	0
Total Minimum Lease Payments	513,836	36,564
Less Interest	(95,040)	(1,158)
Present Value of Minimum Lease Payments	\$ 418,796	\$ 35,406

H. LONG-TERM DEBT

GENERAL OBLIGATION BONDS

The city issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. The original amount of general obligation bonds issued in prior years was \$78,785,000. During the year, general obligation bonds totaling \$39,365,000 were issued to refund 1993, 1996/97, 1999 and 2000 general obligation bonds and for general fund capital projects.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds generally are issued as 20-year serial bonds with equal amounts of principal maturing each year. General obligation bonds are either created by 3/5 majority vote of the people and, therefore, financed by a special tax levy; or created by ordinance, adopted by the City Council, and normally financed from general revenues (councilmanic bonds). General obligation bonds currently outstanding (in thousands) are as follows:

<u>Name of Issuance</u>	<u>Purpose</u>	<u>Issuance Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Debt Outstanding</u>
1993 Limited Bond	Business Type & Governmental Activities	03/01/1993	08/01/2011	4%-5.65%	\$ 200
1996/1997 Limited Tax	Business Type & Governmental Activities	12/01/1996	12/01/2016	5%-5.6%	795
1998 LTGO Bond	Governmental Activities	03/01/1998	12/01/2018	4.3%-5.125%	9,160
1998 LTGO Bond	Business Type & Governmental Activities	09/01/1998	12/01/2018	3.45%-4.85%	11,895
1999 LTGO Bond	Governmental Activities	11/01/1999	12/01/2019	3.85% - 6%	2,780
2000 LTGO Bond	Business Type & Governmental Activities	08/23/2000	12/01/2025	5% to 5.75%	6,465
2001 LTGO Bond	Governmental Activities & Refunding	08/21/2001	09/01/2015	4.25% to 5%	8,180
2002 LTGO Bond	Governmental Activities & Refunding	10/23/2002	12/01/2025	2% to 5.25%	39,365
Total General Obligation Bonds					\$ 78,840

\$3.52 million is available in the Debt Service Funds to service the general obligation bonds. Annual debt service requirements to maturity for general obligation bonds (in thousands) are as follows:

CITY OF VANCOUVER

NOTES TO FINANCIAL STATEMENTS

	Governmental Activities			Business Type Activities		
	Principal	Interest	Total Requirements	Principal	Interest	Total Requirements
2003	\$ 2,492	\$ 3,264	\$ 5,756	\$ 528	\$ 515	\$ 1,043
2004	2,615	2,668	5,283	555	979	1,534
2005	2,764	2,556	5,320	536	954	1,490
2006	2,917	2,437	5,354	553	928	1,481
2007	2,972	2,814	5,786	658	902	1,560
2008-2012	18,436	9,204	27,640	4,064	4,048	8,112
2013-2017	20,931	4,126	25,057	5,159	2,957	8,116
2018-2022	5,522	309	5,831	4,778	1,536	6,314
2023-2025	0	0	0	3,360	315	3,675
	<u>\$ 58,649</u>	<u>\$ 27,378</u>	<u>\$ 86,027</u>	<u>\$ 20,191</u>	<u>\$ 13,134</u>	<u>\$ 33,325</u>

The city has also received government and bank loans to provide for construction of capital projects. Government and bank loans outstanding (in thousands) at year-end are as follows:

Name of Issuance	Purpose	Issuance Date	Maturity Date	Interest Rate	Debt Outstanding
1991 PWTF Water Station #4	Business type activities - water/sewer	07/01/1991	07/01/2011	1%	\$ 710
Comm. Econ. Revital. Board	Business type activities - water/sewer	12/15/1989	03/29/2009	6.10%	300
Comm. Econ. Revital. Board	Governmental & Business type activities - Water sewer	12/11/1984	12/31/2004	7%	204
<i>Total Government Loans</i>					<u>\$ 1,214</u>

Government and bank loan debt service requirements to maturity (in thousands) are as follows:

	Governmental Activities			Business Type Activities		
	Principal	Interest	Total Requirements	Principal	Interest	Total Requirements
2003	\$ 99	\$ 25	\$ 124	\$ 114	\$ 14	\$ 128
2004	106	19	125	116	11	127
2005	33	12	45	85	8	93
2006	36	9	45	86	7	93
2007	38	7	45	86	5	91
2008-2011	83	8	91	332	10	342
	<u>\$ 395</u>	<u>\$ 80</u>	<u>\$ 475</u>	<u>\$ 819</u>	<u>\$ 55</u>	<u>\$ 874</u>

SPECIAL ASSESSMENT DEBT

The government also issues special assessment debt to provide funds for the construction of water and sewer utilities in residential areas without existing infrastructure. Special assessment bonds are created by ordinance, adopted by council, and financed by assessment on property owners. A separate guaranty fund is available to cover most outstanding delinquencies at the end of the assessment period. The city's obligation doesn't extend beyond the guaranty fund assets. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the government must provide resources to cover the deficiency until other resources, for example, foreclosure proceeds, are received. The City has a Local Improvement District Guaranty Fund to finance any uncollectible special assessment debt. As of December 31, 2002, \$5,957 of special assessment receivables were delinquent. Special assessment debt with a governmental commitment reported at year end is (in thousands) as follows:

CITY OF VANCOUVER

NOTES TO FINANCIAL STATEMENTS

<u>Name of Issuance</u>	<u>Issuance Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Debt Outstanding</u>
1988 Assessment Bond	12/15/1988	12/15/2010	6.5%-8%	\$ 95
Assessment Notes Receivable	Various	Various	6.625%-9.86%	73
Total Assessment Debt				\$ 168

Special assessment bonds are serial bonds but are called "yearly based on assessments received." Annual debt service requirements to maturity for special assessment bonds are (in thousands) as follows:

<u>Governmental Activities</u>			
	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2003	\$ 45	\$ 13	\$ 58
2004	32	9	41
2005	30	7	37
2006	35	4	39
2007	10	2	12
2008-2009	15	2	17
	\$ 167	\$ 37	\$ 204

\$43,836 is available in the Local Improvement District Debt Service Fund and \$274,214 is available in the local improvement district guaranty fund to service the local improvement district bonds.

REVENUE BONDS

The city also issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds are created by ordinance, adopted by the City Council, and financed from Enterprise Fund revenues. The original amount of revenue bonds issued in prior years was \$212,210,000. During the year, 2002 Water Sewer Revenue Refunding bonds were issued in the amount of \$11,310,000 to refund a portion of the 1993 Water Sewer Revenue Bonds. The water sewer revenue bonds are issued to finance capital projects. The Solid Waste revenue bond was issued for operational purposes. Revenue bonds outstanding at year-end are (in thousands) as follows:

<u>Name of Issuance</u>	<u>Issuance Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Debt Outstanding</u>
1993 Water Sewer	07/01/1993	06/01/2013	2.65%-5.5%	\$ 16,885
1995 Water Sewer	08/01/1995	08/01/2019	3.8%-6%	4,330
1997 Water Sewer	12/01/1997	06/01/2018	4.05%-5.25%	56,595
1997 Solid Waste	11/01/1997	06/01/2006	5.7%-6.05%	1,245
1998 Water Sewer	12/01/1998	12/01/2016	3.7%-4.75%	27,085
1999 Water Sewer	11/01/1999	12/31/2020	5.125%-6%	32,605
2002 Water Sewer Refunding	12/01/2002	06/01/2008	5.125%-6%	11,310
Total Revenue Bonds				\$ 150,055

CITY OF VANCOUVER

NOTES TO FINANCIAL STATEMENTS

Revenue bond debt service requirements to maturity are (in thousands) as follows:

	Principal	Interest	Total Requirements
2003 \$	7,140	\$ 7,442	\$ 14,582
2004	7,525	7,084	14,609
2004	7,910	6,705	14,615
2005	8,305	6,309	14,614
2006	8,320	5,942	14,262
2007-2011	48,460	23,135	71,595
2012-2016	47,500	10,188	57,688
2017-2019	14,895	11,119	26,014
\$	<u>150,055</u>	<u>\$ 77,924</u>	<u>\$ 227,979</u>

\$2,310,019 is available in the reserve and redemption accounts of the Water-Sewer and Sanitary Enterprise funds to service revenue debt.

Water-Sewer Revenue bond covenants require that revenue available for debt service (defined as operating and non-operating revenues less expenses requiring payment to outside entities) exceed the annual debt payment of both principal and interest by a ratio of 1.3 to 1. The city remains in compliance with that provision with a current ratio of 1.63 to 1 coverage. There are a number of limitations and restrictions contained in the various bond indentures. The city is in compliance with all significant limitations and restrictions.

COMPENSATED ABSENCES

Accumulated amounts of vacation leave are accrued as an expenditure when incurred in Proprietary Funds, but only the current portion of the yearly accrual which was left unpaid at the end of the fiscal year is shown as a liability and shown as an expenditure in governmental funds. The remainder of the liability is reported in the governmental activities column of the statement of net assets.

At year-end 2002, the recorded liability for sick and vacation time amounted to \$7,007,047 with \$5,635,961 in governmental funds and \$1,371,086 in proprietary funds. City employees receive vacation and sick leave time at monthly rates established by city ordinance or union agreement. Vacation is accrued monthly by employees at annual rates ranging from 18 to 35 days depending upon tenure and union agreements. Accumulated vacation carryover between years is limited to twice an employee's current year accrual. Sick leave accruals vary, depending upon union agreement, between 10 and 12.25 hours per month. Provisions in all contracts provide for a pay off of sick leave depending on tenure for employees hired prior to January 1, 1980, for the joint labor coalition, prior to January 1, 1981, for the law and justice, and prior to January 1, 1983, for the firefighters union. An employee retiring from the city on account of age shall be paid a sum equal to ten percent of his accrued and unused short-term disability leave if he has more than ten years of service; 25 percent if he has more than 15 years of service; or 50 percent if he has more than 20 years of service. For law officers and firefighters, provisions also provide for one-half of the above percentages if the employee leaves the city in good standing for other than retirement.

ADVANCE AND CURRENT REFUNDINGS

In prior years, the City has defeased various bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U S Government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been removed as a liability from the governmental activities column of the statement of net assets. The following is a schedule of outstanding bonds (in thousands) that are either refunded or defeased.

CITY OF VANCOUVER

NOTES TO FINANCIAL STATEMENTS

Name of Issue	Year Issue Defeased	Cash on Deposit With Trustee	Investment With Trustee	Bonds Payable	Fund Balance (Deficit)
<i>General Obligation Bonds</i>					
93, 96/7, 95 & 00 LTGO	2002	779	39,986	(37,045)	3,720
<i>Water Sewer Revenue Bonds</i>					
1995 Revenue	1998	47	21,601	(24,610)	(2,962)
1993 Revenue	2002	34	11,811	(11,370)	475

Advanced refunding

On October 23, 2002, the government issued \$39,365,000 of general obligation and refunding bonds to provide funds for capital acquisitions and to provide resources to purchase U.S. Government State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$37,045,000 of general obligation bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net assets. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. This advance refunding was undertaken to reduce total debt service payments over the next 6 years by \$2,192,185 and resulted in an economic gain of \$1,696,464.

Additionally, on December 1, 2002, the government issued \$11,310,000 of water sewer revenue bonds to provide resources to purchase U.S. Government State and Local Government Series Securities that were placed in an irrevocable trust for the purpose of generating resources for future debt service payments of \$11,370,000 of 1993 Water Sewer Revenue bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net assets. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. This advance refunding was undertaken to reduce total debt service payments over the next 6 years by \$484,282 and resulted in an economic gain of \$449,942.

CITY OF VANCOUVER

NOTES TO FINANCIAL STATEMENTS

CHANGES IN LONG-TERM LIABILITIES (IN THOUSANDS)

The following is a summary of long-term debt changes of the city for the year:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
Bonds payable:					
General obligation bonds	\$ 59,322	\$ 23,804	\$ 24,477	\$ 58,649	\$ 2,492
Less deferred amounts					
For issuance premiums (discounts)	62	2,381	24	2,419	0
On refunding	(123)	(1,999)	(51)	(2,071)	0
Total bonds payable	59,261	24,186	24,450	58,997	2,492
Special assessment debt with governmental commitment	192	0	24	168	45
Capital leases	448	0	29	419	22
Government loans	599	0	204	395	99
Net pension obligation	96	0	96	0	0
Claims and judgements	1,251	789	123	1,917	0
Compensated absences	5,728	12,331	12,191	5,868	294
Governmental activity long term liabilities	<u>\$ 67,575</u>	<u>\$ 37,306</u>	<u>\$ 37,117</u>	<u>\$ 67,764</u>	<u>\$ 2,952</u>
Business-type activities					
Bonds payable					
General obligation bonds	\$ 21,254	\$ 15,561	\$ 16,624	\$ 20,191	\$ 528
Revenue bonds	156,905	11,310	18,160	150,055	7,140
Less deferred amounts					
For issuance premiums (discounts)	(122)	1,830	(33)	1,741	0
On refunding	(1,435)	(2,342)	(347)	(3,430)	0
Total bonds payable	176,602	26,359	34,404	168,557	7,668
Government loans	931	0	112	819	114
Compensated absences	992	3,055	2,908	1,139	57
Capital leases	103	0	67	36	36
Business-type activity long term liabilities	<u>\$ 178,628</u>	<u>\$ 29,414</u>	<u>\$ 37,491</u>	<u>\$ 170,551</u>	<u>\$ 7,875</u>

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year-end \$232,252 of internal service funds compensated absences are included in the above amounts. Also, for the governmental activities, claims and judgements and compensated absences are generally liquidated by operating funds, such as the general fund, consolidated fire and the street funds.

The city's legal limit of indebtedness is 1 ½% of assessed property value without a vote of the taxpayers and 2 ½% with a vote of the taxpayers. At December 31, 2002, the remaining nonvoted and voted remaining capacity was \$86,382,842 and \$97,011,473.

CITY OF VANCOUVER

NOTES TO FINANCIAL STATEMENTS

NOTE V. OTHER DISCLOSURES

A. PRIOR PERIOD ADJUSTMENTS

Water-Sewer Fund

In prior years the water-sewer fund transferred \$1,746,560 for its share of the business system implementation. This amount should have been capitalized, not expensed. A prior period adjustment of \$1,746,560 was made in 2002 to correct this error.

B. RELATED PARTY TRANSACTIONS

On September 1, 1987 the City of Vancouver entered into a lease agreement with the Vancouver Area Development Authority (VADA) relating to the lease of Officers Row to VADA. In August of 2001, the city amended the lease to the Authority. This lease is an operating lease which grants early termination rights. The cost of the Officer's Row Assets is \$15,603,526. Accumulated depreciation to date is \$3,887,658, which results in a book value of \$11,715,868. For 2002, VADA's requirement under the lease was \$514,800. At 12/31/02, \$158,000 of this obligation is still payable to the City.

C. IMPACT FEE CREDITS

In 1995, the City of Vancouver adopted an impact fee ordinance to ensure that adequate facilities are available to serve new growth and development. An impact fee is charged at the issuance of a building permit. In addition, the developer may be entitled to a non-refundable "credit" against the applicable impact fee component for the fair market value of appropriate dedications of land, improvement or new construction of system improvements provided by the developer. In the event that the amount of the "credit" is calculated to be greater than the amount of the impact fee due, the developer may apply the excess "credit" toward impact fees assessed on other developments within the same service area. As of December 31, 2002, the amount of credits that may be applied against future impact fees is \$6,821,488.

D. SUBSEQUENT EVENTS

During May 2003, the city issued \$18,520,000 in limited tax general obligation bonds to provide monies for constructing and equipping a new community center known as the Firshburg Community Center, remodel the Marshall Center and to pay costs of issuing the bond. The bonds bear interest rates from 1.4% to 4.5% and will be redeemed over the next 26 years with general tax revenues.

The City of Vancouver, Clark County, the Vancouver Public Facilities District and the Vancouver Downtown Redevelopment Authority are collaborating on the development and financing of a conference center and hotel in downtown Vancouver. The project will be funded with proceeds from the sale of tax exempt bonds issued by the Vancouver Downtown Redevelopment Authority. The bonds will be secured by project revenues, together with a credit from the State of Washington equal to 0.033% of 1% of the sales and use tax collected within the City and the County and a dedication of 50% of the lodging taxes collected within the City. Part of the security structure of the bonds used to finance the project calls for the city to enter into an agreement with the bond trustee on behalf of bond owners guarantying a minimum amount of tax revenues such that in the event that tax revenues collected in any year fall below the minimum guarantee the city would be obligated to pay the difference to the bond trustee. The level of the minimum guarantee is set at a level approximately 15% below the City's forecast for revenues.

CITY OF VANCOUVER

NOTES TO FINANCIAL STATEMENTS

E. JOINT VENTURES

The City is involved in a joint operation with other governmental entities in the establishment and operation of the Clark Regional Emergency Services Agency. Control of the entity is shared equitably by the controlling organizations. For reporting purposes, this entity is shown as a governmental activities joint venture. The city's share of ownership is reported as a capital asset in the government-wide statement of net assets. Control in this entity, by participating governmental entities, is by board representation.

Clark Regional Emergency Services Agency

Clark Regional Emergency Services Agency was created under the Interlocal Cooperation Act (RCW 39.4) by agreement between the city and other governmental units and political districts. Its purpose is to provide a consolidated public safety communications service to participating cities, political districts, and Clark County. The city has a 40% interest in the equity and operations of the agency. The city's share of 2002 operations was \$4,582 for a total equity interest of \$392,274 at the end of 2002. Current liabilities are comprised of amounts owed to vendors, other governments, and accrued employee leave liabilities. The entity's long-term debt consists mainly of deferred compensation and accrued liabilities. The entity's long-term debt is unsecured. Clark County maintains the accounting records for Clark Regional Emergency Services Agency. Detailed financial statements for this entity can be obtained from Clark Regional Emergency Services Agency at 710 W 13th St, Vancouver, WA 98660-2810.

F. CITY SELF-INSURANCE FUND-RISK MANAGEMENT

During 1977, the city became a qualified self-insurer for workers' compensation as an alternative to the state program. In 1978, all local governments within Washington State were brought under the state unemployment tax coverage, which also allowed qualified cities to become self-insured. The city qualified and became self-insured in 1978. The city established a Self-Insurance Internal Service Fund to account for and finance its insured and uninsured risks of loss. The fund addresses claims in four areas of risk that include general liability, worker's compensation, unemployment, and property. Commercial insurance is purchased to handle risk of loss. In the past three years, none of the settlements exceeded the city's purchased insurance coverage. Information on each area is as follows:

General Liability

The Self-Insurance costs for liability claims in 2002 totaled \$370,564. Historically, there have been approximately 100 claims filed against the city for any given year. There were 141 claims filed for 2002. The fund pays the majority of claims involving general liability but has various liability coverage's through specific policies. Currently our specific policies include airport liability at a cost of \$5,088. Coverage is at \$5,000,000 for Liability and \$5,000,000 for hangar keepers legal. In addition, the city purchases excess liability insurance for all city operations including auto, for a limit of \$10,000,000 at a cost of \$286,784. The excess policy provides \$1,000,000 Self Insured Retention. The city also purchases Liability on specific Autos' up to \$1,000,000 at a cost of \$35,114.

Worker's Compensation

The city is self-insured through the fund for worker's compensation; however, an excess coverage policy is carried at a premium cost of \$52,248. The policy has a \$400,000/\$750,000 deductible. The costs of claims for workers' compensation totaled \$419,328 in 2002. This amount represents payments made for prior years as well as 2002. Approximately 125 claims were processed in 2002.

Property

The city carries fire damage insurance (Buildings and Business Personal Property), fleet physical damage coverage, boiler and machinery, and flood insurance coverage at a cost of \$385,984. Policy coverage for fire damage is up to \$249,657,632 with a \$50,000 deductible. This represents replacement cost for all city buildings and contents. Fleet physical damage coverage is maintained for catastrophic event coverage up to a \$12,874,001. The deductible for Fleet Physical Damage is \$25,000. The Boiler and Machinery coverage is maintained at a limit of \$100,000,000 with a \$5,000 deductible. 125 property claims were reported for 2002. Property claim costs during 2002 totaled \$157,410. This amount represents payments made for prior years as well as 2002.

Contributions and Reserves

City fund contributions to the Self-Insurance Fund are determined using information from the contributing funds past claims experience and loss exposures. As of December 31, 2002, the retained earnings totaled \$1,215,386. The claims liability reported in the fund totaled \$1,917,314 for the period ending December 31, 2002. The amount reported is as follows:

CITY OF VANCOUVER

NOTES TO FINANCIAL STATEMENTS

Liability Reserves

Open Claims	\$ 380,150
Incurred But Not Reported	676,193
Total Liability Reserves	<u>1,056,343</u>

Property Reserves

Open Claims	139,902
Incurred But Not Reported	<u>77,847</u>
Total Property Reserves	<u>217,749</u>

Worker's Compensation Reserves

Open Claims	362,241
Incurred But Not Reported	<u>280,981</u>
Total Worker's Compensation Reserves	<u>643,222</u>

Total Liability Reserves **\$ 1,917,314**

The claims liability, as reported in the fund, is based on the requirements of GASB Statement 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and that the amount of the loss can be reasonably estimated. Changes in the fund's claims liability amount in 2001 and 2002 are as follows:

Year	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year End
2002	1,251,262	789,171	123,119	1,917,314
2001	1,530,932	398,313	677,983	1,251,262

G. PROPERTY TAXES

A city is permitted by law to levy up to \$3.60 per \$1,000 of assessed valuation for general governmental services and 22.5 cents per \$1,000 for local Fire Pension Funds. However, a separate library district was formed in 1981 for the tax year 1982, thus reducing the cities levy lid to the difference between \$3.825 per \$1,000 of assessed valuation and the library levy which cannot exceed 50 cents per \$1,000 of assessed value. Therefore, the maximum the city levy could be is \$3.325 per \$1,000. This amount may be reduced for any of the following reasons:

- The Washington State Constitution limits the total regular property taxes to one percent of assessed valuation or \$10 per \$1,000 of value. If the taxes of all districts exceed this amount, each is proportionately reduced until total is at or below the one percent limit.
- Washington State Law in RCW 84.55.010 limits the growth of regular property taxes to six percent per year, after adjustments for new construction. If the assessed valuation increases by more than six percent due to revaluation, the levy rate will be decreased.
- The city may voluntarily levy taxes below the legal limit.

Special levies approved by the voters are not subject to the above limitations.

For 2002, the city's regular tax levy was \$3.32 per \$1,000 on a total taxable 2001 assessed valuation of \$9,144,798,220 for a total regular levy of \$30,522,088.

Outstanding property taxes at December 31, 2002 amount to \$1,347,396, not including the accrual of the 2003 tax levy amount of \$30,173,775. The city does not establish an allowance for doubtful accounts since state law has authorized the foreclosure and sale of property to satisfy delinquent property taxes.

All property taxes are received into the general fund. Transfers are then made into the general obligation debt service funds as required by the bond ordinances. Any shortages due to delinquent property taxes are absorbed by the general fund.

H. EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS

The City of Vancouver's employees are covered in one of the following pension plans: Public Employees Retirement System (PERS), Law Enforcement Officer's and Fire Fighters (LEOFF) Retirement System, City of Vancouver Police Pension Fund (Police) and City of Vancouver Firefighter Pension Fund (Fire). All of these plans are defined benefit plans and reported in accordance with all current pension pronouncements. The Police and Fire Pension Funds are considered part of the City's reporting entity and are reported as pension trust funds. These two plans do not issue a stand-alone financial report. The PERS and LEOFF Plans are administered by the State of Washington Department of Retirement Systems, under cost-sharing multiple-employer public employee retirement systems. The Washington State Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual

CITY OF VANCOUVER

NOTES TO FINANCIAL STATEMENTS

financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained from the Department of Retirement Systems, Communications Unit, PO Box 48380, Olympia, WA 98504-8380. The following disclosures are made pursuant to GASB Statement 27, Accounting for Pensions by State and Local Government Employers.

RETIREMENT PLAN FINANCIAL AND ACTUARIAL DATA – 12/31/02

	PERS			LEOFF		Police	Fire
	Plan 1	Plan 2	Plan 3	Plan 1	Plan 2		
Current Membership:							
Retirees/Beneficiaries Currently							
Receiving Benefits	a	a	a	a	a	32	66
Current Active Members	a	a	a	a	a	2	10
Contribution Rates							
City	1.32% ^b	1.32% ^b	1.32% ^b	.22% ^b	2.86% ^b	N/A	N/A
Employee	6.00%	0.65%	c	0.00%	4.39%	N/A	N/A
State of Washington	N/A	N/A	N/A	N/A	1.75%	N/A	N/A
State Fire Insurance/Property Tax	N/A	N/A	N/A	N/A	N/A	N/A	See Note
City Required Contribution	32,262	431,537	2,762	2,202	634,370	379,003	419,508
City Actual Contribution	32,262	431,537	2,762	2,202	634,370	290,192	575,511
Actuarial Valuation Date	a	a	a	a	a	01/01/2003	01/01/2003
Actuarial Cost Method	a	a	a	a	a	Entry Age	Entry Age
Amortization Method	a	a	a	a	a	Level Percent	Level Percent
Unfunded Actuarial Liability	a	a	a	a	a	Pay as you go	Fully Funded
Asset Valuation Method	a	a	a	a	a	Fair Value	Fair Value
Actuarial Assumptions							
Investment Rate of Return	a	a	a	a	a	7%	7%
Projected Salary Increases	a	a	a	a	a	5%	5%
Inflation Rate (CPI)	a	a	a	a	a	4%	4%

a) See Department of Retirement Systems Annual Financial Report.

b) The rates include the employer administrative expense fee currently set at 0.22%.

c) Variable from 5% minimum to 15% maximum based on rate selected by the PERS 3 member.

PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS) PLANS 1, 2 AND 3

Plan Description:

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals and Superior Courts (other than judges in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees (not in national higher education retirement system); judges of district and municipal court; and employees of local government. Participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and be either, February 28, 2002 for state and higher education employees or August 31, 2002 for local government employees are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the option of choosing membership in either PERS Plans 2 or PERS plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. PERS defined benefit retirement benefits are financed from a combination of investment earnings and employee and

CITY OF VANCOUVER

NOTES TO FINANCIAL STATEMENTS

employer contributions. PERS retirement benefit provisions are established in state statute and may be amended only by the state legislature.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The annual pension is two percent of the final average salary per year of service, capped at 60 percent. The average final compensation is based on the greatest compensation during any 24 eligible consecutive compensation months. If qualified, after reaching age 66 a cost-of-living allowance is granted based on years of service credit and is capped at 3 percent annually.

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at 55 with 20 years of service, with an allowance of two percent per year of service of the average final compensation. Plan 2 retirements prior to 65 receive reduced benefits. If retirement is at age 55 with 30 years of service, a 3 percent per year reduction applies, otherwise an actuarial reduction will apply. There is no cap on years of service credit and a cost of living allowance is granted (Indexed to the Seattle Consumer Price Index) and capped at three percent annually.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 3 members become eligible for retirement if they have: at least ten years of service; or five years including twelve months that were earned after age 54; or five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Employee Retirement Benefits Board.

There are 1,155 participating employers in PERS. Membership in PERS consisted of the following at September 30, 2001:

Retirees and Beneficiaries Receiving Benefits	62,189
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	18,412
Active Plan Members Vested	97,777
Active Plan Members Non-vested	55,159
Total	<u>233,537</u>

Funding Policy:

Each biennium the State Pension Funding Council adopts Plan 1-employer contribution rates and Plan 2 employer and employee contribution rates. Employee contribution rates for Plan 1 are established by statute at six percent and do not vary from year to year. The employer and employee contribution rates for Plan 2 are set by the Director of the Department of Retirement Systems based on recommendations by the Office of State Actuary to continue to fully fund the plan. All employers are required to contribute at the level established by state law. The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The city and the employees made the required contributions. The city's required contributions for the years ended December 31 were:

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
2002	\$ 32,262	\$ 431,537	\$ 2,762
2001	75,176	904,543	N/A
2000	106,356	1,008,458	N/A

LAW ENFORCEMENT OFFICERS AND FIREFIGHTERS (LEOFF) PLANS 1 AND 2

Plan Description:

The LEOFF system is a cost-sharing multiple-employer retirement system. Membership in the system includes all full-time, fully compensated, local law enforcement officers, and firefighters. LEOFF is comprised solely of non-state employees. The LEOFF system includes two defined benefit pension plans. Participants who joined the system by September 30, 1977, are Plan 1 members. Those joining thereafter are enrolled in Plan 2. Retirement benefits are financed from employee and employer contributions, investment earnings and state contributions. Retirement benefit provisions are established in state statute and may be amended only by the state legislature.

CITY OF VANCOUVER

NOTES TO FINANCIAL STATEMENTS

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible to retire with five years of service at age 50. The benefit per year of service is as follows:

<u>Term of Service</u>	<u>Percent of Final Average</u>
20 or more years	2.0%
10 but less than 20 years	1.5%
5 but less than 10 years	1.0%

The final average salary is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. If membership was established in LEOFF after February 18, 1974, the service retirement benefit is capped at 60 percent of final average salary. A cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index).

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members are eligible to retire at the age of 50 with 20 years of service or at 53 with five years of service. Retirement benefits prior to age 53 are actuarially reduced three percent for each year that the benefit commences prior to age 53. The benefit is two percent of the average salary per year of service. The average salary is based on the highest consecutive 60 months. There is no cap on years of service credit and a cost-of-living allowance is granted, capped at 3 percent annually.

There are 359 participating employers in LEOFF. Membership in LEOFF consisted of the following at September 31, 2001:

Retirees and Beneficiaries Receiving Benefits	8,078
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	332
Active Plan Members Vested	10,894
Active Plan Members Non-vested	4,006
Total	<u>23,310</u>

Funding Policy:

Starting on July 1, 2000, Plan 1 employers and employees will contribute zero percent as long as the plan remains fully funded. Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plan. Plan 2 employers and employees are required to pay at the level adopted by the Department of Retirement Systems in accordance with 41.45 RCW. All employers are required to contribute at the level required by state law. The Legislature, by means of a special funding arrangement, appropriated money from the state General Fund to supplement the current service liability and the prior service costs of Plan 1 in accordance with the requirements of the Pension Funding Council. However, this special funding situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statute. The methods used to determine the contribution rates are established under state statute in accordance with Chapters 41.26 and 41.45 RCW.

The city and the employees made the required contributions. The city's required contributions for the years ended December 31 were:

	<u>LEOFF Plan 1</u>	<u>LEOFF Plan 2</u>
2002	\$ 2,202	\$634,370
2001	3,392	748,430
2000	66,879	693,920

POLICE OFFICERS AND FIREFIGHTERS PENSION FUNDS

The city administers two single employer defined benefit pension plans, Police and Relief Pension Fund and Fire Pension Fund. These funds were established by the city in compliance with requirements of the Revised Code of Washington (RCW) 41.20 and 41.18. The plans are limited to police officers, firefighters and beneficiaries employed before March 1, 1970, the effective date of LEOFF. The LEOFF laws were subsequently amended by the Pension Reform Act, which took effect October 1, 1977. Through the LEOFF Act, the state undertook to provide the bulk of police and fire pensions; however, the municipalities continue to be responsible for all or part of pension benefits for employees hired before March 1, 1970, as discussed later. The plans are closed plans that provide pension and medical benefits, some of which can be in excess of LEOFF benefits.

CITY OF VANCOUVER

NOTES TO FINANCIAL STATEMENTS

Benefit Provisions

The LEOFF Act requires a varying obligation of the city for benefits paid to police officers and firefighters.

- Pension and medical for police officers and firefighters retired prior to March 1, 1970, continue to be paid in their entirety by the city under the old pension laws.
- Police officers and firefighters hired before, but not retired on March 1, 1970, received at retirement the greater of the pension benefit provided under the old pension laws and under the LEOFF Act. Any excess of the old benefit over the LEOFF benefit is provided by the city. The city also pays the reasonable cost of necessary medical expenses of the retiree only for life.
- For police officers and firefighters hired on or after March 1, 1970, and prior to October 1, 1977, the city is obligated for lifetime medical expenses only. The LEOFF system pays the entire retirement allowance.
- Police officers and firefighters hired on or after October 1, 1977 are covered entirely by the LEOFF system with no city obligation for either retirement allowance or medical expenses.

There were no changes in benefit provisions in the current year.

Summary of Significant Accounting Policies

The Police and Fire plans are shown as trust funds in the financial statements of the city. The financial statements are prepared using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The City follows GASB Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures" and GASB Statement No. 27, "Accounting for Pensions by State and Local Governmental Employers."

As of December 31, 2002, the Firefighters Pension fund had an investment portfolio with fair value of \$5,019,192. \$3,118,632 was invested in corporate bonds and \$1,900,560 was invested in federal agencies. The City of Vancouver has a safekeeping custodial agreement with US Bank Corporate Trust. Market values for the corporate bonds are provided by the safekeeping custodian, using the services of Interactive Data, an independent securities evaluation agency. The agency utilizes various models to estimate the value of the securities daily, based upon actual representative market activity. The Washington State Treasurer Local Government Investment Pool is a Rule 2a-7 money market type fund with an average portfolio maturity of less than 91 days. Therefore, this portion of the Firefighters Pension fund portfolio is valued at cost. The Police Pension fund reported no investments at December 31, 2002. Investments are reported at fair value.

The city does not hold an investment in any one corporation or organization exceeding 5% of net assets available for benefits. Additionally, the city does not have any long-term contract for contributions and any amounts outstanding at the report date.

Contributions and Reserves

Each Plan receives funding as detailed in section A of this note. Funding for the Police Pension Fund comes from annual transfers from the General Fund that are budgeted and approved by council. Sources of funding for the Firefighters Pension Fund include donations, distributions from the state from fire insurance premium collections, and a property tax levy of up to \$.45 per \$1,000 of assessed valuation. Milliman and Robertson, Inc completed actuarial studies of the two funds as of January 1, 2001. The General Fund is responsible for the costs of administering the plans. Obligations for medical expenses are funded for the most part by group insurance. There have been no required employee contributions to the plans since March 1, 1970. As of December 31, 2002, the Police Pension Funds and the Firefighters Pension Fund reported net assets reserved for payment of future claims of \$468,377 and \$5,989,300, respectively.

CITY OF VANCOUVER

NOTES TO FINANCIAL STATEMENTS

Police and Fire Pension Funds Annual Pension Cost and Net Pension Obligation

	Police Pension	Fire Pension
Amortized of Unfunded Actuarial Liability (UAL)	\$ 354,208	\$ 392,064
Interest to December 31, 2001	24,795	27,444
Actuarial Required Contribution (ARC) 12/31/01	379,003	419,508
Interest on Net Pension Obligation (NPO)	(24,734)	6,733
Adjustment to Net Pension Obligation	26,896	(7,321)
Annual Pension Cost (APC)	381,165	418,920
Employer Contributions	(290,192)	(575,511)
Increase (Decrease) in NPO	90,973	(156,591)
Net Pension Obligation January 1, 2002	(353,337)	96,180
Net Pension Obligation December 31, 2002	<u>\$ (262,364)</u>	<u>\$ (60,411)</u>

Three Year Trend Information

Police Pension Fund

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Contribution as a Percentage of APC</u>	<u>Net Pension Obligation</u>
12/31/00	\$ 389,175	140.6%	\$ (403,588)
12/31/01	381,148	86.8%	(353,337)
12/31/02	381,165	76.1%	(262,364)

Firefighters Pension Fund

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Contribution as a Percentage of APC</u>	<u>Net Pension Obligation</u>
12/31/00	\$ 401,182	56.2%	\$ 387,039
12/31/01	417,451	169.7%	96,180
12/31/02	418,920	137.4%	(60,411)

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Six-year trend information is presented as required supplementary information following the Notes to the Financial Statements.

Separate financial statements are not issued for the police and fire pension plan. The statement of net assets and the statement of changes in fiduciary net assets for the police and fire pension plans is disclosed below:

CITY OF VANCOUVER

NOTES TO FINANCIAL STATEMENTS

CITY OF VANCOUVER
STATEMENT OF NET ASSETS
POLICE AND FIRE PENSION PLANS
December 31, 2002

	Police Pension	Fire Pension
ASSETS		
Cash, cash equivalents and pooled investments	\$ 425,409	\$ 780,352
Investments (at fair value)	0	5,019,192
Receivables (net):		
Accounts	47,065	111,899
Interest	0	69,004
Prepaid expenses	10,215	20,000
TOTAL ASSETS	482,689	6,000,447
LIABILITIES		
Vouchers and accrued employee payables	14,312	11,147
Total liabilities	14,312	11,147
NET ASSETS		
Held in trust for pension benefits	\$ 468,377	\$ 5,989,300

CITY OF VANCOUVER
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
POLICE AND FIRE PENSION PLANS
For The Year Ended December 31, 2002

	Police Pension	Fire Pension
Additions:		
Employer Contributions		
For pension benefits	\$ 284,071	\$ 575,012
benefits	286,029	402,406
Total Contributions	570,100	977,418
Investment Income		
Interest earnings	0	559,715
Total Investment Income	0	559,715
Total Additions	570,100	1,537,133
Deductions:		
Pension benefits	319,633	621,712
Healthcare premium subsidies	286,029	402,407
Administrative expense	1,030	8,573
Total Deductions	606,692	1,032,692
Change in net assets	(36,592)	504,441
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
BEGINNING OF YEAR	504,969	5,484,859
END OF YEAR	\$ 468,377	\$ 5,989,300

CITY OF VANCOUVER

NOTES TO FINANCIAL STATEMENTS

I. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

In addition to the pension benefits described in Note 5(A), the city provides postretirement health care benefits in accordance with statute to retired police and fire employees who are eligible under the Police Relief and Pension Fund and Firefighter's Pension Fund. Currently, 146 retirees meet those eligibility requirements.

The city reimburses 100 percent of the amount of validated claims for medical and hospitalization costs incurred by retirees. The city pays for the retiree's monthly insurance premium and also picks up the balance owing after insurance and Medicare payments are made. The pension board performs an annual survey to determine the limit of optical and chiropractic care to be covered. The city also reimburses a monthly fixed amount equal to the Medicare premium for each retiree eligible for Medicare.

Employer contributions are financed on pay-as-you-go basis. Expenditures for postretirement health care benefits are recognized as retirees report claims and include a provision for estimated claims incurred but not yet reported to the city.

During the year, expenditures of \$688,436 were recognized for postretirement health care.

J. REPORTING CHANGES

Implementation of GASB 39

During 2002, the city implemented GASB 39, *Determining Whether Organizations Are Component Units - An Amendment of GASB Statement No. 14*. In accordance with this statement, the City has adopted discrete presentation of financial information for its component units, Vancouver Area Development Authority (VADA) and Public Facilities District (PFD). Prior to 2002, separate financial statements were prepared for PFD, whereas VADA was included in the City's Business-Type activities. The removal of VADA from Business-Type activities changed the 2002 beginning balance of the City's Net Assets from \$516,987,897 to \$516,948,818, a reduction of \$39,079.

Change in Beginning Net Asset Balance

As discussed above, the Beginning Net Asset Balance on the Statement of Activities was reduced by \$39,079.

CITY OF VANCOUVER
REQUIRED SUPPLEMENTARY INFORMATION
POLICE AND FIRE PENSION FUNDS

Schedule of Funding Progress
(in thousands)

Retirement System	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
Police Relief and Pension Fund	01/01/1997	\$ 93	\$ 5,274	\$ 5,181	1.76%	\$ 102	5065%
	01/01/1999	141	4,951	4,810	2.85%	59	8153%
	01/01/2001	568	5,271	4,703	10.80%	0	N/A
	01/01/2003	468	3,760	3,292	12.45%	0	N/A
Fireman's Pension Fund	01/01/1997	\$ 4,914	\$ 8,161	\$ 3,247	60.20%	\$ 109	2973%
	01/01/1999	5,134	10,116	4,982	50.80%	63	7908%
	01/01/2001	5,108	10,313	5,205	49.50%	0	N/A
	01/01/2003	5,993	9,233	3,240	64.91%	0	N/A

Schedule of Employer Contributions

Retirement System	Fiscal Year Ending	Actual Employer Contribution	Annual Required Contribution (ARC)	Percentage of APC Contributed
Police Relief and Pension Fund	12/31/1997	\$ 447,244	\$ 419,499	107%
	12/31/1998	462,232	419,499	110%
	12/31/1999	565,124	387,831	146%
	12/31/2000	547,379	387,831	141%
	12/31/2001	330,897	379,003	87%
	12/31/2002	290,192	379,003	77%
Fireman's Pension Fund	12/31/1997	\$ 209,653	\$ 264,318	79%
	12/31/1998	341,877	264,318	129%
	12/31/1999	268,634	402,359	67%
	12/31/2000	225,508	402,359	56%
	12/31/2001	708,310	419,508	169%
	12/31/2002	575,511	419,508	137%

Prior information used to determine funding requirements for Police Relief and Pension and Firemen's Pension Funds do not meet the parameters for actuarial calculations for defined benefit pension plans and so historical data prior to 1997 are not shown. The city's plan is valued biennially. The next actuarial valuation is scheduled for 1/1/03.

City of Vancouver
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
POLICE AND FIRE PENSION FUNDS

	<u>Police Pension</u>	<u>Fire Pension</u>
Valuation Date	01/01/2002	01/01/2002
Actuarial Cost Method	Entry age	Entry age
Amortization Method	Level Percent Open	Level Percent Open
Remaining Amortization Period	30 years	30 years
Asset Valuation method	Fair Value	Fair Value
Actuarial Assumptions:		
Investment rate of return	7%	7%
Projected Salary Increases	5%	5%
Includes Inflation at	4%	4%
Cost of living adjustments	Varies*	Varies*

*Under the Police and Fire Pension funds, most adjustments are based on the change in salary for the rank of the members held at retirement or based on the Consumer Price Index. Adjustments are determined in accordance with RCW 41.18.150, RCW 41.20 and RCW 41.26.

APPENDIX D
BOOK-ENTRY SYSTEM

APPENDIX D

BOOK-ENTRY SYSTEM

The following information (except for the final paragraph) has been provided by the Depository Trust Company, New York, New York ("DTC"). The City makes no representation regarding the accuracy or completeness thereof. Beneficial Owners (as hereinafter defined) should therefore confirm the following with DTC or the Participants (as hereinafter defined).

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds in the principal amount of such maturity and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, and trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. **Neither the information on DTC's website, nor any links from that website, is part of this Official Statement, and such information cannot be relied upon to be accurate as of the date of this Official Statement, nor should any such information be relied upon to make investment decisions regarding the Bonds.**

Purchases of the Bonds under the DTC system, in denominations of \$5,000 or any integral multiple thereof, must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

When notices are given, they shall be sent by the Registrar to DTC only. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or any other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the City and the Registrar. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of the book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

With respect to Bonds registered on the Bond Register in the name of Cede & Co., as nominee of DTC, the City and the Registrar shall have no responsibility or obligation to any Participant or to any person on behalf of whom a Participant holds an interest in the Bonds with respect to (i) the accuracy of the records of DTC, Cede & Co. or any Participant with respect to any ownership interest in the Bonds; (ii) the delivery to any Participant or any other person, other than a bondowner as shown on the Bond Register, of any notice with respect to the Bonds,

including any notice of redemption; (iii) the payment to any Participant or any other person, other than a bondowner as shown on the Bond Register, of any amount with respect to principal of, premium, if any, or interest on the Bonds; (iv) the selection by DTC or any Participant of any person to receive payment in the event of a partial redemption of the Bonds; (v) any consent given action taken by DTC as registered owner; or (vi) any other matter. The City and the Registrar may treat and consider Cede & Co., in whose name each Bond is registered on the Bond Register, as the holder and absolute owner of such Bond for the purpose of payment of principal and interest with respect to such Bond, for the purpose of giving notices of redemption and other matters with respect to such Bond, for the purpose of registering transfers with respect to such Bond, and for all other purposes whatsoever. For the purposes of this Official Statement, the term "Beneficial Owner" shall include the person for whom the Participant acquires an interest in the Bonds.

APPENDIX E

CERTAIN DEFINITIONS FROM THE BOND ORDINANCE

APPENDIX E

CERTAIN DEFINITIONS FROM THE BOND ORDINANCE

As used in the Bond Ordinance and this Official Statement, the following words shall have the following meanings:

“Acquired Obligations” means the Government Obligations acquired by the City under the terms of the Bond Ordinance and the Escrow Agreement to effect the defeasance and refunding of the Refunded Bonds.

“Adjusted Net Revenues” shall have the meaning given such term under the heading “SECURITY FOR THE BONDS—Future Parity Bonds” in the forepart of this Official Statement.

“Annual Debt Service” for any Fiscal Year or calendar year means the sum of:

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

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

“Average Annual Debt Service” means the amount determined by dividing (a) the sum of all interest and principal to be paid on outstanding Parity Bonds from the date of determination to the last maturity date of such Parity Bonds, by (b) the number of Fiscal Years or calendar years from and including the Fiscal Year or calendar year in which the determination is made to the last Fiscal Year or calendar year in which the sum of (i) the principal amount of Serial Bonds maturing in such Fiscal Year plus (ii) the Sinking Fund Requirement for such Fiscal Year, exceeds 4% of the principal amount of Parity Bonds outstanding as of the date of determination.

“Beneficial Owner” means any person that has or shares the power, directly or indirectly to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

“Bond Fund” means the Water and Sewer Revenue Bond Fund established pursuant to Section 3.2 of Ordinance No. M-2572. The Bond Fund has an Interest Account, a Principal Account, a Reserve Account and a Bond Retirement Account.

“Bond Insurance Policy” means the municipal bond insurance policy issued by the Insurer that guarantees payment of principal of and interest on the Bonds.

“Bond Register” means the registration books showing the name, address and tax identification number of each Registered Owner of the Bonds, maintained pursuant to Section 149(a) of the Code.

“Bond Registrar” means the fiscal agency of the State of Washington, for the purposes of registering and authenticating the Bonds, maintaining the Bond Register, effecting transfer of ownership of the Bonds, and paying the principal of, premium, if any, and interest on the Bonds.

“Bond Retirement Account” means the account of that name created in the Bond Fund to amortize the principal of Term Bonds.

“Bonds” means the City of Vancouver, Washington Water and Sewer Revenue Refunding Bonds, 2004 authorized to be issued pursuant to the Bond Ordinance.

“City Manager” means the City Manager of the City, or any successor to the functions of the City Manager.

“Code” means the federal Internal Revenue Code of 1986, as amended, and applicable regulations.

“Commission” means the Securities and Exchange Commission.

“Council” means the general legislative body of the City as the same shall be duly and regularly constituted from time to time.

“Coverage Stabilization Account” means the account of that name created pursuant to Section 4.1 of Ordinance No. M-3315.

“DTC” means The Depository Trust Company, New York, New York, a limited purpose trust company organized under the laws of the State of New York, as depository for the Bonds pursuant to the Bond Ordinance.

“Escrow Agent” means U.S. Bank National Association.

“Escrow Agreement” means the Escrow Deposit Agreement to be dated as of the date of closing and delivery of the Bonds substantially in the form attached to the Bond Ordinance as Exhibit A.

“Event of Default” with respect to the Bonds, means an Event of Default as defined in Section 18 of the Bond Ordinance.

“Fiscal Year” means the fiscal year used by the City at any time.

“Future Parity Bonds” means any water and sewer revenue bonds to be issued in the future as Parity Bonds.

“Future Parity Bond Coverage Test” means Adjusted Net Revenues to be received each calendar year or Fiscal Year after the issuance of a series of Future Parity Bonds equal or greater than 1.3 times the Average Annual Debt Service in each such calendar year or Fiscal Year, on the Parity Bonds that shall be outstanding in each such calendar year or Fiscal Year (including the Future Parity Bonds proposed to be issued).

“General Account” means the account of that name in the Revenue Fund, created pursuant to Section 4.1 of Ordinance No. M-3315.

“Government Obligations” means those obligations now or hereafter defined as such in chapter 39.53 RCW.

“Insurer” means Financial Guaranty Insurance Company, a New York stock insurance company, or any successor thereto or assignee thereof, as issuer of a Bond Insurance Policy for the Bonds.

“Letter of Representations” means the blanket issuer letter of representations from the City to DTC.

“MSRB” means the Municipal Securities Rulemaking Board.

“Net Revenues” means the Revenues less the Operating Expenses.

“NRMSIR” means a nationally recognized municipal securities information repository.

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

“Outstanding Parity Bonds” means the parity water and sewer revenue bonds of the City identified in the recitals to the Bond Ordinance.

“Parity Bonds” means the Outstanding Parity Bonds, the Bonds and any Future Parity Bonds. “Parity Bonds” may include bonds, notes, warrants, certificates of indebtedness or any other evidence of indebtedness.

“Permitted Investments” means any investment that is legal and authorized for funds of the City.

“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.

“Qualified Insurance” means any unconditional 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, which insurance company or service corporation is rated in one of the two highest rating categories by either Moody’s Investors Service or Standard & Poor’s Ratings Services, whichever rating agency then maintains a rating on the Bonds, or, if both of such rating agencies have ratings on the Bonds outstanding, then such company or bank shall be so rated by both agencies, provided, that, as of the time of issuance of such policy or surety bond, such insurance company or companies maintain a policyowner’s surplus in excess of \$500,000,000.

“Qualified Letter of Credit” means any irrevocable letter of credit issued by a bank for the account of the City and for the benefit of the owners of any of the Parity 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 by either Moody’s Investors Service or Standard & Poor’s Ratings Services, whichever rating agency then maintains a rating on the Parity Bonds, or, if both of such rating agencies have ratings on the Parity Bonds outstanding, then such company or bank shall be so rated by both agencies.

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

“Reserve Account” means the account of that name created in the Bond Fund to secure the payment of the principal of and interest on any Parity Bonds.

“Reserve Account Requirement” means, with respect to any issue of Parity Bonds, the lesser of (a) maximum Annual Debt Service on all outstanding Parity Bonds, and (b) 125% of Average Annual Debt Service on all outstanding Parity Bonds; provided, that the amount required to be deposited under the Bond

Ordinance with respect to any Future Parity Bonds in order to meet the Reserve Fund Requirement shall not exceed 10% of the net proceeds of such Future Parity Bonds under the Code.

“Revenue Fund” means the Water and Sewer Revenue Fund of the City created by Section 4 of Ordinance No. M-93 of the City.

“Revenues” means all income, receipts and revenues received 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 or facilities of the System, together with the investment income earned on moneys held in any fund or account of the City including the Bond Fund, in connection with the ownership and operation of the System, and any contributions from other funds of the City or other sources, including individual and government agencies, but excluding investment income restricted to a particular purpose inconsistent with its use for the payment of debt service generally, in connection with the ownership and operation of the System. **From and after the date that all Outstanding Parity Bonds issued prior to 2002 are no longer outstanding, “Revenues” shall include any withdrawal from the Coverage Stabilization Account and shall exclude transfers to the Coverage Stabilization Account, for purposes of demonstrating compliance with the Rate Covenant, but not for purposes of complying with the Future Parity Bond Coverage Test, all as described in the Bond Ordinance.**

“Rule” means the Commission’s Rule 15c2-12 under the Securities Exchange Act of 1934, as amended.

“Serial Bonds” means Parity Bonds other than Term Bonds.

“SID” means a state information depository for the State of Washington (if one is created).

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

“System” means the existing sanitary sewage collection and treatment system of the City, together with the existing water supply and distribution system and the existing storm drainage facilities of the City, as such systems now exist and as they may later be added to, extended and improved, for as long as any Parity Bonds remain outstanding. The City Council may, in its discretion, hereafter determine by ordinance to include facilities for the collection, processing of and disposal of solid waste as a part of the System.

“Term Bonds” means any Parity Bonds, identified as such in the ordinance authorizing the issuance thereof or the bond purchase contract with respect thereto, that are subject to mandatory redemption, the payment of which is provided for by a requirement for mandatory deposits of money into the Bond Retirement Account.

“Treasurer” means the Treasurer of the City or the person succeeding to the functions currently performed by the Treasurer.

“Underwriter” means Piper Jaffray & Co., Seattle, Washington.

APPENDIX F

MUNICIPAL BOND INSURANCE POLICY SPECIMEN



Financial Guaranty Insurance Company
 125 Park Avenue
 New York, NY 10017
 T 212-312-3000
 T 800-352-0001

Municipal Bond New Issue Insurance Policy

Issuer:	Policy Number:
	Control Number: 0010001
Bonds:	Premium:

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to U.S. Bank Trust National Association or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a Bond, the stated date for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all



Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017
T 212-312-3000
T 800-352-0001

Municipal Bond New Issue Insurance Policy

principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

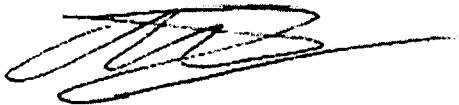


President

Effective Date:

Authorized Representative

U.S. Bank Trust National Association, acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.



Authorized Officer



Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017
T 212-312-3000
T 800-352-0001

Endorsement To Financial Guaranty Insurance Company Insurance Policy

Policy Number:

Control Number: 0010001

It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date:

Authorized Representative

Acknowledged as of the Effective Date written above:

Authorized Officer
U.S. Bank Trust National Association, as Fiscal Agent

In the opinion of Preston Gates & Ellis, LLP, Seattle, Washington, Bond Counsel, interest on the Bonds is excluded from gross income subject to federal income taxation pursuant to the Internal Revenue Code of 1986, as amended, subject to certain conditions and assumptions described herein under "LEGAL MATTERS—Tax Exemption." The Bonds are not private activity bonds. Interest on the Bonds is included in the computation of certain federal taxes on corporations.

\$26,250,000
CITY OF VANCOUVER, WASHINGTON
WATER AND SEWER REVENUE REFUNDING BONDS, 2004

Dated: Date of Delivery

Due: June 1, as shown below

The City of Vancouver, Washington, Water and Sewer Revenue Refunding Bonds, 2004 will be issued as fully registered bonds in the name of Cede & Co., as Bondowner and as nominee for The Depository Trust Company, New York, New York. DTC will act as securities depository for the Bonds. Individual purchases and sales of the Bonds may be made in book-entry form only in denominations of \$5,000 or any integral multiple thereof. Purchasers will not receive certificates representing their interest in the Bonds. Interest on the Bonds will be payable on June 1, 2004, and semiannually thereafter on December 1 and June 1 of each year. So long as DTC or its nominee is the Registered Owner of the Bonds, the principal of and interest on the Bonds will be payable by the fiscal agency of the State of Washington, currently The Bank of New York, in New York, New York, directly to DTC which, in turn, is obligated to remit such principal and interest to the DTC participants for subsequent disbursement to the owners of the Bonds as described in Appendix D hereto, "BOOK-ENTRY SYSTEM."

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by the FINANCIAL GUARANTY INSURANCE COMPANY.



MATURITY SCHEDULE

Due June 1	Amount	Coupon	Yield	CUSIP No.	Due June 1	Amount	Coupon	Yield	CUSIP No.
2004	\$ 30,000	2.000%	1.150%	921645 PJ 0	2013	\$ 805,000	3.375%	3.520%	921645 PT 8
2005	120,000	2.000	1.280	921645 PK 7	2014	2,600,000	5.250	3.690	921645 PU 5
2006	125,000	2.000	1.620	921645 PL 5	2015	2,750,000	5.250	3.820	921645 PV 3
2007	125,000	2.500	1.920	921645 PM 3	2016	2,895,000	5.250	3.930	921645 PW 1
2008	130,000	2.750	2.280	921645 PN 1	2017	2,185,000	5.000	4.030	921645 PX 9
2009	135,000	3.000	2.580	921645 PP 6	2018	2,305,000	5.000	4.130	921645 PY 7
2010	1,455,000	3.000	2.840	921645 PQ 4	2019	3,650,000	5.000	4.230	921645 PZ 4
2011	1,505,000	5.000	3.080	921645 PR 2	2020	3,840,000	5.000	4.310	921645 QA 8
2012	1,595,000	5.000	3.320	921645 PS 0					

The Bonds are not subject to optional redemption by the City prior to their respective maturity dates.

The Bonds and all Outstanding Parity Bonds are, and all Future Parity Bonds, if any, when issued, will be, secured by a lien and charge upon the Revenues of the System, and such lien and charge upon the Revenues is prior and superior to all other charges of any kind and nature whatsoever, except for the payment of Operating Expenses. The Bonds are revenue obligations of the City. Neither the full faith and credit nor the taxing power of the City are pledged to the payment of the Bonds. The Bonds are not obligations of the State of Washington or any political subdivision thereof other than the City.

This cover page contains certain information for quick reference only, and is not a summary of the issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Bonds are offered by the Underwriter, when, as and if issued, subject to the approving legal opinion of Preston, Gates & Ellis LLP, Seattle, Washington, Bond Counsel. Certain legal matters will be passed upon for the Underwriter by its counsel, Gottlieb, Fisher & Andrews, PLLC, Seattle, Washington. It is anticipated that the Bonds will be available for delivery by Fast Automated Securities Transfer, through the facilities of DTC on or about February 26, 2004.

PiperJaffray

No dealer, broker, salesman, or other person has been authorized to give any information or to make any representation, other than the information and representations contained in this Official Statement, in connection with the offering of the Bonds and, if given or made, such information or representations must not be relied upon as having been authorized by the City or the Underwriter. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy any of the Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation, or sale.

The information set forth herein has been obtained from the City and other sources which are believed to be reliable. The information set forth herein under the caption "BOND INSURANCE" and in Appendix E — "MUNICIPAL BOND INSURANCE POLICY SPECIMEN" has been furnished by the Financial Guaranty Insurance Company, the Insurer. The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. The information herein is subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof.

In connection with the offering of the Bonds, the Underwriter may over-allot or effect transactions which stabilize or maintain the market price of such Bonds at levels above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

In the preparation of the projections in this Official Statement, the City has made certain assumptions with respect to conditions that may occur in the future. While the City believes these assumptions are reasonable for the purpose of the projections, they depend upon future events, and actual conditions may differ from those assumed. The City does not represent or guarantee that actual results will replicate the estimates in the various tables set forth in this Official Statement. Potential purchasers of the Bonds should not rely on the projections in this Official Statement as statements of fact. Such projections are subject to change, and will change, from time to time. The City has not committed itself to provide investors with updated forecasts or projections.

The CUSIP numbers are included on the front cover of this Official Statement for convenience of the holders and potential holders of the Bonds. No assurance can be given that the CUSIP numbers for the Bonds will remain the same after the date of issuance and delivery of the Bonds.

CITY OF VANCOUVER
Clark County, Washington
610 Esther Street
P.O. Box 1995
Vancouver, Washington 98668
(360) 696-8200
www.ci.vancouver.wa.us*

Elected Officials

Royce E. Pollard	Mayor
Jeanne Harris	Council Member
Pat Jollota	Council Member
Tim Leavitt	Council Member
Larry Smith	Council Member
Jeanne Stewart	Council Member
Dan Tonkovich	Council Member

Appointed Officials

Pat McDonnell	City Manager
Paul Lewis	Financial & Management Services Manager/City Clerk
Carrie Lewellen	Treasurer
Linda Gellings	Accounting Manager
Ted Gathe	City Attorney

Bond Counsel

Preston, Gates & Ellis LLP
Seattle, Washington

***Neither the information on the City's website, nor any links from that website, is part of this Official Statement, and such information cannot be relied upon to be accurate as of the date of this Official Statement, nor should any such information be relied upon to make investment decisions regarding the Bonds.**

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\$26,250,000
CITY OF VANCOUVER, WASHINGTON
WATER AND SEWER REVENUE REFUNDING BONDS, 2004

INTRODUCTION

This Official Statement is furnished by the City of Vancouver, a municipal corporation duly organized and existing under and by virtue of the laws of the State of Washington (the "City"), to provide information regarding the City and \$26,250,000 principal amount of the City's Water and Sewer Revenue Refunding Bonds, 2004 (the "Bonds"). This Official Statement is qualified in its entirety by reference to Ordinance No. M-3644 of the City passed by the Council on February 2, 2004 (the "Bond Ordinance"). The Bonds are issued under the provisions of the constitution and laws of the State of Washington (the "State") and pursuant to the Bond Ordinance, a copy of which is available from the City Clerk. Capitalized terms used herein and not otherwise defined shall have their respective meanings given in the Bond Ordinance. All terms used herein are included in Appendix E hereto, "CERTAIN DEFINITIONS FROM THE BOND ORDINANCE."

DESCRIPTION OF THE BONDS

Purpose

The proceeds of the Bonds will be used to advance refund and defease the callable portions of the City's outstanding Water and Sewer Revenue Bonds, 1999, to pay the premium for the Bond Insurance Policy and to pay costs of issuing the Bonds. See "Refunding Plan" herein.

General

The Bonds will be dated their Date of Delivery and will be issued in fully registered form in denominations of \$5,000 each or integral multiples thereof within a maturity. The Bonds will mature on the dates and in the principal amounts and will bear interest from their date, payable on June 1, 2004 and semiannually thereafter on December 1 and June 1 of each year at the rates set forth on the cover of this Official Statement. Interest on the Bonds will be calculated on the basis of a year of 360 days and twelve 30-day months.

Purchasers of Bonds will not receive physical certificates showing their investment. The City has chosen to use the book-entry only system for the Bonds. A description of the book-entry only system is attached to this Official Statement as Appendix D. Individual purchasers should receive confirmations of their purchase from their brokers and will receive payments through their brokers as well as all other communications about the Bonds. The City will not know the identity of the purchasers of the Bonds. Therefore, the City will not be communicating directly with such purchasers. All communications will be routed through The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. The City will transmit all payments and communications to DTC. It will be DTC's responsibility to communicate information and to transmit payments through brokerage companies to individual purchasers of the Bonds. The purchaser of a Bond is subject to all of DTC's rules and regulations. The City is not responsible for the performance of DTC and, while the City has no reason to believe that DTC will not perform its duties and responsibilities, the City is notifying purchasers of the Bonds that it will not be responsible for the failure of DTC or any broker to pass on communications or to credit payments accurately or on time to individual brokerage accounts. See Appendix D—"BOOK-ENTRY SYSTEM."

Refunding Plan

The proceeds of the Bonds, together with money in the Bond Fund allocated to the Refunded Bonds (defined below), will be used to advance refund and defease \$25,125,000 principal amount of the City's outstanding Water and Sewer Revenue Bonds, 1999 maturing on June 1 in the years 2010 through and

including 2020 (the "Refunded Bonds"). The advance refunding of the Refunded Bonds is being undertaken to achieve present value savings for the City.

The City will purchase certain non-callable direct or guaranteed obligations of the United States Government, referred to herein as the Acquired Obligations. The Acquired Obligations will be deposited in a trust account (the "Escrow Fund") with U.S. Bank National Association (the "Escrow Agent"), and the maturing principal of the Acquired Obligations and interest earned thereon, together with the cash balance in the Escrow Fund will provide for the payment of:

- (1) the interest on the 1999 Refunded Bonds, if any, coming due on each date on which interest is due and payable, to and including June 1, 2009; and
- (2) the redemption price (100% of the principal amount thereof) of the 1999 Refunded Bonds on June 1, 2009.

Verification of Mathematical Calculations

The mathematical accuracy of (a) the mathematical computations of the adequacy of the maturing principal amounts of and interest on the Acquired Obligations and initial cash balance to be held by the Escrow Agent to pay principal and interest on the Refunded Bonds as described above and (b) the mathematical computations supporting the conclusion of Bond Counsel that the Bonds are not "arbitrage bonds" under Section 148 of the Code will be verified by Causey Demgen & Moore Inc., Denver, Colorado, independent certified public accountants.

Sources and Uses of Funds

The table below sets forth the sources and uses of funds in connection with the issuance of the Bonds and the refunding of the Refunded Bonds.

Sources of Funds

Principal Amount of the Bonds	\$26,250,000.00
Transfers from Bond Fund held for Refunded Bonds	417,453.45
Net Original Issue Premium	<u>2,513,374.20</u>
Total Sources:	<u>\$29,180,827.65</u>

Uses of Funds

Escrow Fund Deposit	\$28,774,710.18
Costs of Issuance*	<u>406,117.47</u>
Total Uses:	<u>\$29,180,827.65</u>

* Includes, among other things, legal, accounting, verification, bond insurance policy premium, Bond Registrar and rating agency fees, printing costs and Underwriter's discount.

No Optional Redemption

The Bonds are not subject to redemption prior to their respective maturity dates.

Selection of Bonds for Redemption; Notice of Redemption; Effect of Redemption

The Bond Ordinance provides that for so long as the Bonds are held in book-entry only form, the operational arrangements then in effect at DTC shall determine the method of selection of particular Bonds within a maturity to be redeemed as well as the notice of redemption to be given. Provided that official

notice of redemption has been given in accordance with the Bond Ordinance, the Bonds or portions of Bonds so to be redeemed shall, on the redemption date, become due and payable at the redemption price therein specified, and from and after such date (unless the City shall default in the payment of the redemption price) such Bonds or portions of Bonds shall cease to bear interest. Upon surrender of such Bonds for redemption in accordance with said notice, such Bonds shall be paid by the Bond Registrar at the redemption price. Installments of interest due on or prior to the redemption date shall be payable as provided in the Bond Ordinance for payment of interest.

Option to Purchase

The City has reserved the right to purchase, at any time, for retirement any Bonds offered to it at any price deemed reasonable by the City.

Transfer and Exchange

In the event that the Bonds are no longer held in book-entry form, the Bonds may be transferred or exchanged by Registered Owners upon completion of the assignment form on the Bond(s) in form and substance satisfactory to the Bond Registrar and delivery of the Bond(s) to be exchanged or transferred to the Bond Registrar for cancellation. Upon such surrender and cancellation, the Bond Registrar will authenticate and deliver to the new Registered Owner a new Bond or Bonds of the same date, maturity and interest rate and for the same aggregate principal amount in any authorized denomination. The Bond Registrar is not required to register the transfer or to exchange Bonds during the 15 days preceding any interest payment date or principal payment date on which any such Bond is to be redeemed.

The Bonds are interchangeable for Bonds in any authorized denomination of an equal aggregate principal amount and of the same interest rate and maturity.

Bond Registrar and Paying Agent, Payment of Bonds

The City has adopted the system of registration for the Bonds approved, from time to time, by the State Finance Committee of the State (the "Committee"). Pursuant to chapter 43.80 Revised Code of Washington ("RCW"), the Committee designates one or more fiscal agencies for bonds issued within the State. The State's fiscal agent, currently The Bank of New York, New York, New York, (the "Bond Registrar"), will authenticate the Bonds and act as the paying agent and registrar for the purpose of paying the principal and interest evidenced and represented by the Bonds, recording the purchase and registration, exchange or transfer, and payment of Bonds and performing the other respective obligations of the paying agent and registrar. No resignation or removal of the Bond Registrar shall become effective until a successor has been appointed and has accepted the duties of Bond Registrar. The Insurer shall be furnished with written notice of the resignation or removal of the Bond Registrar and the appointment of any successor thereto other than the appointment of a new State fiscal agent.

In order to meet payment requirement for interest on and principal of the Bonds as the same becomes due and payable, the City will remit money from the City's Water and Sewer Revenue Bond Fund (the "Bond Fund") to the Bond Registrar. See "SECURITY FOR THE BONDS—The Bond Fund" herein. So long as Cede & Co. is the Registered Owner of the Bonds, the principal of and interest on the Bonds are payable by wire transfer to Cede & Co., as nominee for DTC which, in turn, is to remit such amounts to the Direct Participants for subsequent disbursement to the Beneficial Owners. See "BOOK-ENTRY SYSTEM" in Appendix D. In the event that the Bonds are no longer in book-entry form, interest on the Bonds shall be paid by check or draft mailed to the Registered Owners at the addresses for such Registered Owners appearing on the Bond Register on the fifteenth day of the month preceding the interest payment date, or upon the written request of a Registered Owner of more than \$1,000,000 of Bonds (received by the Bond Registrar at least 15 days prior to the applicable payment date), such payment shall be made by the Bond Registrar by wire transfer to the account within the United States designated by the Registered Owner.

Principal of the Bonds shall be payable upon presentation and surrender of such Bonds by the Registered Owners at the principal office of the Bond Registrar.

Defeasance

The City has reserved the right to defease the Bonds or any portion of them by providing for their payment. Payment of all or any portion of the Bonds may be provided for by irrevocably pledging and setting aside in a special account cash and/or "Government Obligations" (as such term is defined in chapter 39.53 RCW). Such cash and Government Obligations shall be applied solely for the purpose of paying the principal of the Bonds at maturity and interest thereon as the same shall become due. Such cash and the maturing principal of and interest on such Government Obligations shall be sufficient to pay when due such principal and interest. Within 60 days of any defeasance of Bonds the Bond Registrar shall provide notice of defeasance of Bonds to, among others, registered owners, all in accordance with the Bond Ordinance.

SECURITY FOR THE BONDS

Pledge of Net Revenues

The Bonds are issued on a parity of lien with the City's outstanding Water and Sewer Revenue Bonds, 1993 (the "1993 Bonds"), Water and Sewer Revenue Bonds, 1995 (the "1995 Bonds"), Water and Sewer Revenue Bonds, 1997 (the "1997 Bonds") Water Sewer Revenue Refunding Bonds, 1998 (the "1998 Bonds"), Water Sewer Revenue Bonds, 1999 (the "1999 Bonds") (exclusive of the Refunded Bonds), and the Water and Sewer Revenue Refunding Bonds, 2002 (the "2002 Bonds") (see "DEBT INFORMATION" herein). The 1993 Bonds, the 1995 Bonds, the 1997 Bonds, the 1998 Bonds, the 1999 Bonds and the 2002 Bonds are collectively referred to herein as the Outstanding Parity Bonds. The Outstanding Parity Bonds, the Bonds and any Future Parity Bonds are collectively referred to herein as the "Parity Bonds." For certain purposes herein where noted, the term "Outstanding Parity Bonds" shall not include the 2002 Bonds.

The Bonds and all Outstanding Parity Bonds are, and all Future Parity Bonds, if any, when issued, will be, secured by a lien and charge upon the Revenues of the System, and such lien and charge upon the Revenues is prior and superior to all other charges of any kind and nature whatsoever, except for the payment of Operating Expenses. The Bonds are revenue obligations of the City. Neither the full faith and credit or the taxing power of the City are pledged to the payment of the Bonds. The Bonds are not obligations of the State or any political subdivision thereof other than the City.

Rate Covenant

The City has covenanted in the Bond Ordinance for the benefit of Bond Owners to establish, maintain and collect such rates and charges for the use of the services and facilities of and all commodities sold, furnished or supplied by the System, and shall adjust rates and charges from time to time so that:

- (1) The Revenues collected will at all times be sufficient (a) to pay the Operating Expenses, (b) to pay principal of and interest on the Parity Bonds, as and when the same shall become due and payable, (c) to make adequate provision for the payment of any Term Bonds, (d) to make when due all payments that the City is obligated to make into any Reserve Account and all other payments that the City is obligated to make pursuant to the Bond Ordinance, including payments to any Insurer or the issuer of a Qualified Letter of Credit, and (e) to pay all taxes, assessments or other governmental charges lawfully imposed on the System or the revenue therefrom or payments in lieu thereof and any and all other amounts that the City may now or hereafter become obligated to pay from the Revenues by law or contract and
- (2) Net Revenues in each Fiscal Year will be at least equal to 1.30 times the Average Annual Debt Service (calculated as of December 31 of the preceding calendar year).

By Resolution No. M-2980, the Council affirmed its desire to maintain the System in a sound financial condition and to support the credit rating of the System by maintaining the ratio of Net Revenues to Average Annual Debt Service above a certain level. By such resolution, the Council stated its policy to establish and adjust rates and charges for the System so that Net Revenues in each Fiscal Year will be at least equal to 1.65 times the Average Annual Debt Service calculated as of December 31 of the preceding calendar year. While this policy has been established by Resolution No. M-2980, it is not, and shall not be construed as, a covenant with the owners of any Parity Bonds or other revenue bonds of the System or of any other debt of the City.

By Ordinance No. M-3463, the City established a Coverage Stabilization Account. So long as the Outstanding Parity Bonds (not including the 2002 Bonds) are outstanding, amounts on deposit in this account may not be utilized to meet the requirements of the Rate Covenant described in (1) and (2) above, the requirements set forth in the Bond Ordinance for the issuance of Future Parity Bonds or the policy set by Resolution No. M-2980 described above; however, transfers to or from the Coverage Stabilization Account may be taken into consideration in meeting the City's policy of maintaining Net Revenues at least equal to 1.65 times Average Annual Debt Service as set forth in Resolution No. M-2980. For purposes of calculating coverage of Average Annual Debt Service there must be: (a) added to Net Revenues for any Fiscal Year the amount withdrawn from the Coverage Stabilization Account, and deposited in the General Account, during that Fiscal Year; and (b) subtracted from Net Revenues for any Fiscal Year the amount withdrawn from the General Account and deposited into the Coverage Stabilization Account during that Fiscal Year.

From and after the time when the Outstanding Parity Bonds (not including the 2002 Bonds) no longer remain outstanding, transfers from the Coverage Stabilization Account to the General Account (described below under "Flow of Funds") shall be included in "Revenues" for purposes of compliance with the requirements of subsections (1) and (2) above under "Rate Covenant," but not for the purposes of meeting the Future Parity Bonds Coverage Test (as hereinafter defined).

Flow of Funds

All Revenues are deposited as collected into the Water and Sewer Revenue Fund (the "Revenue Fund"), which was created by Ordinance No. M-93. There are two accounts within the Revenue Fund: the General Account and the Coverage Stabilization Account.

Money in the Revenue Fund is held separate and apart from all other funds and accounts of the City. Money in the Revenue Fund may be invested in any Permitted Investment. All Revenues paid into the Revenue Fund are to be first credited to the General Account therein and applied as follows:

First, to pay the Operating Expenses and to maintain a balance in the Revenue Fund sufficient in amount to enable the City to continuously meet Operating Expenses on a current basis;

Second, to make all payments required to be made into the Interest Account to pay the interest on any Parity Bonds;

Third, to make all payments to be made into the Principal Account to pay the maturing principal of any Parity Bonds and to make all payments required to be made into the Bond Retirement Account to provide for the mandatory redemption of Term Bonds;

Fourth, to make all payments required to be made into the Reserve Account to secure the payment of the principal of and interest on outstanding Parity Bonds;

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

Sixth, to make all payments required to be made into any revenue bond redemption fund, revenue warrant redemption fund, debt service account, reserve account or bond retirement account created to pay and secure the payment of the principal of and interest on any revenue bonds, or revenue warrants or other revenue obligations of the City having a lien upon the Revenues junior and inferior to the lien thereon for the payment of the principal of and interest on the Parity Bonds; and

Seventh, to retire by redemption or purchase any outstanding water and sewer revenue bonds or other obligation of the City, to make necessary additions, betterments, improvements and repairs to or extensions and replacements of the System, or for any other lawful City purposes.

To the extent that surplus Revenues remain after the payments so required to be made out of the General Account, the City may credit up to the full amount of such surplus to the Coverage Stabilization Account. The Coverage Stabilization Account was created in anticipation of future increases in revenue requirements. Funds in the Coverage Stabilization Account may be transferred to the General Account to accommodate part or all of those future revenue requirement increases.

From and after the date that all Outstanding Parity Bonds (not including the 2002 Bonds) are no longer outstanding, the following provisions with respect to the Coverage Stabilization Account will apply. Pursuant to the Bond Ordinance, the City determined that the maintenance of a Coverage Stabilization Account will even out fluctuations in Net Revenues and help to alleviate the need for short-term rate adjustments. Money in the Coverage Stabilization Account will be transferred as determined from time to time by the City. The City may make payments into the Coverage Stabilization Account from the General Account at any time. Money in the Coverage Stabilization Account may be withdrawn at any time and used for the purpose for which the Revenues may be used. Amounts withdrawn from the Coverage Stabilization Account shall increase Revenues for the period in which they are withdrawn, and amounts deposited in the Coverage Stabilization Account shall reduce Revenues for the period during which they are deposited. Credits to or from the Coverage Stabilization Account that occur within 90 days after the end of a Fiscal Year may be treated as occurring within such Fiscal Year. Earnings on the Coverage Stabilization Account shall be credited to the General Account.

Moneys in the Coverage Stabilization Account may be used for any lawful purpose, including to make up any deficiencies in the Bond Fund. To the extent required for such deficiencies, moneys in the Coverage Stabilization Account are pledged as additional payments to the Bond Fund.

Additional Covenants

Maintenance and Operation. The City shall at all times maintain, preserve, and keep the properties of the System in good repair, working order and condition and will make all necessary and proper repairs, renewals, replacements, extensions, and betterments thereto, so that at all times the business of the System will be properly conducted.

Payment of Operating Expenses. The City shall maintain sufficient moneys in the Revenue Fund, after providing for the payments from the Revenue Fund into the Bond Fund, to enable the System to meet Operating Expenses on a current basis.

Sale or Disposition of System. The City shall not sell or otherwise dispose of the System in its entirety unless simultaneously with such sale or disposition provision is made for the payment into the Bond Fund of cash or Government Obligations which amounts shall be sufficient, together with interest to be earned thereon, to pay the principal and interest on then outstanding Bonds. The City will not sell or otherwise dispose of any part of the useful operating properties of the System unless such facilities are replaced or provision is made for payment into the Bond Fund of certain amounts as set forth in the Bond Ordinance.

Liens or Encumbrances. The City shall not at any time create or permit to accrue or to exist any lien or other encumbrance or indebtedness upon the System or the Revenues superior to the lien for the payment of the outstanding Bonds.

Insurance. The City shall maintain insurance coverage, to the extent insurance coverage is available at a reasonable cost with responsible insurers, against the risks of direct physical loss, damage to or destruction of the System, or any part thereof, and against accidents, casualties, or negligence. A program to self-insure against certain risks or as to part of the potential liability for certain risks may be included as part of the City's insurance coverage plan.

Books and Accounts. The City shall keep proper books of account in accordance with applicable rules and regulations prescribed by the State. The City shall prepare balance sheets and profit and loss statements showing in reasonable detail the financial condition of the System as of the close of each year. These statements will be available to the owners of the Bonds upon written request.

Additions and Improvements. The City will not expend any of the Revenues derived by it from the operation of the System or the proceeds of any indebtedness payable from the Revenues for any extensions, betterments, or improvements to the System which are not consistent with prudent utility management and which will not properly and advantageously contribute to the conduct of the business of the System in an efficient manner; provided, that to the extent permitted by law, the City may provide commodities, services or facilities free of charge or at a reduced charge in order to carry out a plan adopted by the Council for conservation of water or to benefit elderly, handicapped or poor persons.

Covenants Regarding Tax-Exempt Status of the Bonds. The City has covenanted that it will not take or permit to be taken on its behalf any action that would adversely affect the exemption from federal income taxation of the interest on the Bonds and will take or require to be taken such acts as may reasonably be within its ability and as may from time to time be required under applicable law to continue the exemption from federal income taxation of the interest on the Bonds.

The Bond Fund

The Bond Fund, which was created by Ordinance No. M-2572, is used solely for the purpose of paying the principal of, premium, if any, and interest on the Parity Bonds and of retiring the Parity Bonds prior to maturity. An Interest Account, a Principal Account, a Reserve Account and a Bond Retirement Account (for the redemption of Term Bonds) have been created in the Bond Fund. All moneys in the Bond Fund are held in trust for the benefit of the owners of all Parity Bonds at the time outstanding equally and ratably and without preference or distinction as between Parity Bonds of different series and maturities. Moneys in the Bond Fund shall be transmitted to the Bond Registrar in amounts sufficient to meet the maturing installments (or mandatory redemption) of principal of and premium, if any, and interest on the Bonds when due.

Reserve Account Requirement

The Bond Ordinance provides for the funding and maintenance of a Reserve Account within the Bond Fund for the payment of debt service on the outstanding Parity Bonds of the System in an amount equal to the lesser of (a) maximum Annual Debt Service on all outstanding Parity Bonds, and (b) 125% of Average Annual Debt Service on all outstanding Parity Bonds; provided however, that the amount required to be deposited with respect to any Future Parity Bonds in order to meet the Reserve Account Requirement shall not exceed 10% of the net proceeds of such Future Parity Bonds. Under the Bond Ordinance, the City is required to meet the Reserve Account Requirement upon the issuance of any Future Parity Bonds. The Bond Ordinance provides that the City may satisfy the Reserve Account Requirement by deposits of cash, by providing a Qualified Letter of Credit, Qualified Insurance, or other equivalent credit facility.

Reserve Account Policies

The City has in place in the Reserve Account Qualified Insurance policies that are sufficient to satisfy the Reserve Account Requirement for the Parity Bonds. The Qualified Insurance policies provide that upon notice from the Paying Agent (as such term is defined in the Qualified Insurance policies) to the Insurers to the effect that insufficient amounts are on deposit in the Principal and Interest Accounts in the Bond Fund to pay the principal of (at maturity or pursuant to mandatory redemption requirements) and interest on the outstanding Parity Bonds, the Insurers will promptly deposit with the Paying Agent an amount sufficient to pay the principal of and interest on the outstanding Parity Bonds then due or the available amount of the Qualified Insurance policy, whichever is less. The available amount of Qualified Insurance policy is the initial face amount of the policy less the amount of any previous deposits by the Insurer with the Paying Agent which have not been reimbursed by the City.

Debt Payment Record

There is no record of default in the payment of principal of or interest on any bonded indebtedness of the City.

Future Parity Bonds

In the Bond Ordinance, the City reserves the right to issue additional bonds payable from the Bond Fund on parity with the Bonds and the Outstanding Parity Bonds (the "Future Parity Bonds") upon compliance with certain conditions, including the following:

- (1) That there is no deficiency in the Bond Fund (including the Reserve Account therein) at the time of issuance.
- (2) In each ordinance authorizing such Future Parity Bonds, provision shall be made for payments into the Reserve Account in accordance with the Bond Ordinance.
- (3) That at the time of the issuance of any Future Parity Bonds, the City shall have on file a certificate from a licensed Professional Utility Consultant, not then employed by the City except for the purpose of giving such certificate, showing that the Net Revenues received during the most recent 12-month period for which financial statements are available within the 24 months preceding the date of delivery of such Bonds equals at least 1.30 times the average Annual Debt Service each calendar year or Fiscal Year thereafter on the then outstanding Parity Bonds and that the Adjusted Net Revenues to be received each calendar year or fiscal year thereafter, will equal at least 1.30 times the Average Annual Debt Service each such calendar year or Fiscal Year, on the Parity Bonds that shall be outstanding in each such calendar year or Fiscal Year (including the Future Parity Bonds proposed to be issued) ("Future Parity Bonds Coverage Test").

The "Adjusted Net Revenues" shall be the Net Revenues for a period of any 12 consecutive months out of the 24 months immediately preceding the date of delivery of such proposed Future Parity Bonds, as adjusted to take into consideration changes in Net Revenues estimated to occur under one or more of the following conditions for each year after such delivery for so long as any Parity Bonds, including the Future Parity Bonds proposed to be issued, shall be outstanding:

- (a) Any increase or decrease in Net Revenues which would result if any change in rates and charges adopted by the Council prior to the date of such certificate and subsequent to the beginning of such 12-month period had been in force during the full 12-month period;
- (b) The additional Net Revenues from any rate increases which have been approved by ordinance of the Council but which are not then in effect;

- (c) Any increase or decrease in Net Revenues estimated by such Professional Utility Consultant to result from any additions, betterments, and improvements to and extensions of any facilities of the System which (i) became fully operational during such 12-month period, (ii) were under construction at the time of such certificate, or (iii) will be constructed from the proceeds of the Future Parity Bonds to be issued;
- (d) The additional Net Revenues which would have been received if any customers added to the System during such 12-month period were customers for the entire period; and
- (e) The additional Net Revenues that may be derived by the City from any users of the System with whom the City has entered into a contract for utility services to be furnished, which revenues have not otherwise been included in Net Revenues.

The following provision shall be effective from and after the date on which all Outstanding Parity Bonds (not including the 2002 Bonds) are no longer outstanding. In the event that the Net Revenues of the City for the 12-month period within the preceding 24 months based upon the financial statements of the City are sufficient, without any adjustment, to demonstrate compliance with the Future Parity Bond Coverage Test, then the certificate described above may be delivered by the City Manager in lieu of a certificate from a Professional Utility Consultant. In such case, the certificate of the City Manager shall be conclusive and the only evidence required to show compliance with such provisions and requirements.

If Future Parity Bonds are to be issued for the purpose of refunding at or prior to their maturity any part of or all of the then outstanding Parity Bonds and the issuance of such refunding Future Parity Bonds results in debt service savings and does not require an increase of more than \$5,000 in any year for principal and interest on such refunding Future Parity Bonds, such certificate is not required.

The City reserves the right to issue revenue bonds or other obligations, which are a charge upon the Revenues of the System junior or inferior to that of the Parity Bonds.

Events of Default and Remedies

Pursuant to the Bond Ordinance, the City covenanted and agreed with the 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 certain events shall constitute "Events of Default" under the Bond Ordinance. Such Events of Default concern payment of principal of, premium, if any, and interest on the Bonds, compliance with the covenants contained in the Bond Ordinance, sale or transfer of System properties other than as permitted under the Bond Ordinance, bankruptcy and inability to pay the debts of the System. Provided that the Bond Insurance Policy with respect to the Bonds is in effect, upon the occurrence and continuation of an Event of Default, the Insurer shall be entitled to exercise on behalf of the owners of all of the Bonds, any of the remedies provided in the Bond Ordinance and, for as long as the Insurer is not in default of its obligations under the Bond Insurance Policy, the Insurer shall be the only party entitled to exercise the remedies provided in the Bond Ordinance.

The provisions described in this paragraph apply only so long as the Outstanding Parity Bonds (not including the 2002 Bonds) remain outstanding. During the continuance of an Event of Default or following the occurrence of an event that, with the passage of time and the giving of the notice required by the Bond Ordinance would become an Event of Default and for so long as the Outstanding Parity Bonds (not including the 2002 Bonds) remain outstanding, the owners of Parity Bonds representing twenty percent (20%) in principal amount of the Parity Bonds then outstanding may call a bondowners meeting for the purpose of electing a committee to act on behalf of all owners of Parity Bonds (the "Bondowners Committee"). The members of the Bondowners Committee elected by the Parity Bondowners in the manner provided in the Bond Ordinance, and their successors, as a committee shall be trustees for the owners of all the Bonds then outstanding, and are empowered to exercise in the name of the Bondowners Committee as

trustee, all the rights and powers conferred on the Bondowners Committee in the ordinances authorizing the issuance of the Outstanding Parity Bonds.

Upon the occurrence of an Event of Default with respect to the Bonds and so long as such Event of Default shall not have been remedied, a Registered Owners' Trustee may be appointed for the Bonds by the owners of 51% in principal amount of the Outstanding Bonds by an instrument or concurrent instruments in writing signed and acknowledged by such Registered Owners or by their attorneys-in-fact duly authorized and delivered to such Registered Owners' Trustee, and notification thereof being given to the City. For so long as the Bonds are held in book-entry only form, communications with the owners shall be made with the securities depository that is the Registered Owner of the Bonds and communications with (and obtaining consents from) Beneficial Owners shall be made in accordance with the operational procedures of the securities depository that is the Registered Owner of the Bonds. The Registered Owners' Trustee appointed in the manner provided in the Bond Ordinance, and each successor thereto, shall be a trustee for the owners of all the Bonds for which such appointment is made and is empowered to exercise all the rights and powers conferred on the Registered Owners' Trustee in the Bond Ordinance.

A Registered Owners' Trustee may upon the happening of an Event of Default and during the continuation thereof, take such steps and institute such suits, actions or other proceedings in its own name, or as trustee, all as it may deem appropriate for the protection and enforcement of the rights of Registered Owners to collect any amounts due and owing the City, or to obtain other appropriate relief, and may enforce the specific performance of any covenant, agreement or condition contained in the Bond Ordinance.

No owner of any one or more of the Bonds shall have any right to institute any action, suit or proceedings at law or in equity for the enforcement of the same, unless an Event of Default shall have happened and be continuing, and unless no Registered Owners' Trustee has been appointed, but any remedy authorized in the Bond Ordinance to be exercised by a Registered Owners' Trustee may be exercised individually by any Registered Owner, in his own name and on his own behalf or for the benefit of all Registered Owners, in the event no Registered Owners' Trustee has been appointed, or with the consent of the Registered Owners' Trustee if such Registered Owners' Trustee has been appointed; provided however, that nothing in the Bond Ordinance or in the Bonds shall affect or impair the obligation of the City which is absolute and unconditional, to pay from Net Revenues the principal of and interest on said Bonds to the respective owners thereof at the respective due dates therein specified, or affect or impair the right of action, which is absolute and unconditional, of such owners to enforce such payments.

BOND INSURANCE

Concurrently with the issuance of the Bonds, Financial Guaranty Insurance Company (the "Bond Insurer") will issue its Municipal Bond New Issue Insurance Policy (the "Bond Insurance Policy") for the Bonds. The Bond Insurance Policy unconditionally guarantees the payment of that portion of the principal or accreted value (if applicable) of and interest on the Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the issuer of the Bonds (the "City"). The Bond Insurer will make such payments to U.S. Bank Trust National Association, or its successor as its agent (the "Fiscal Agent"), on the later of the date on which such principal or accreted value (if applicable) and interest is due or on the business day next following the day on which the Bond Insurer shall have received telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from an owner of Bonds or the Paying Agent of the nonpayment of such amount by the City. The Fiscal Agent will disburse such amount due on any Bond to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner's right to receive payment of the principal, accreted value or interest (as applicable) due for payment and evidence, including any appropriate instruments of assignment, that all of such owner's rights to payment of such principal, accreted value or interest (as applicable) shall be vested in the Bond Insurer. The term "nonpayment" in respect of a Bond includes any payment of principal, accreted value or interest (as applicable) made to an owner of a Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

The Bond Insurance Policy is non-cancellable and the premium will be fully paid at the time of delivery of the Bonds. The Bond Insurance Policy covers failure to pay principal or accreted value (if applicable) of the Bonds on their respective stated maturity dates or dates on which the same shall have been duly called for mandatory sinking fund redemption, and not on any other date on which the Bonds may have been otherwise called for redemption, accelerated or advanced in maturity, and covers the failure to pay an installment of interest on the stated date for its payment.

Generally, in connection with its insurance of an issue of municipal securities, the Bond Insurer requires, among other things, (i) that it be granted the power to exercise any rights granted to the holders of such securities upon the occurrence of an event of default, without the consent of such holders, and that such holders may not exercise such rights without the Bond Insurer's consent, in each case so long as the Bond Insurer has not failed to comply with its payment obligations under its insurance policy; and (ii) that any amendment or supplement to or other modification of the principal legal documents be subject to the Bond Insurer's consent. The specific rights, if any, granted to the Bond Insurer in connection with its insurance of the Bonds are set forth in the description of the principal legal documents appearing elsewhere in this Official Statement. Reference should be made as well to such description for a discussion of the circumstances, if any, under which the City is required to provide additional or substitute credit enhancement, and related matters.

This Official Statement contains a section regarding the ratings assigned to the Bonds and reference should be made to such section for a discussion of such ratings and the basis for their assignment to the Bonds. Reference should be made to the description of the City for a discussion of the ratings, if any, assigned to such entity's outstanding parity debt that is not secured by credit enhancement.

The Bond Insurance Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Guaranty is a monoline financial guaranty insurer domiciled in the State of New York and subject to regulation by the State of New York Insurance Department. As of September 30, 2003, the total capital and surplus of Financial Guaranty was approximately \$999 million. Financial Guaranty prepares financial statements on the basis of both statutory accounting principles and generally accepted accounting principles. Copies of such financial statements may be obtained by writing to Financial Guaranty at 125 Park Avenue, New York, New York 10017, Attention: Communications Department (telephone number: 212-312-3000) or to the New York State Insurance Department at 25 Beaver Street, New York, New York 10004-2319, Attention: Financial Condition Property/Casualty Bureau (telephone number: 212-480-5187).

Financial Guaranty is a wholly-owned subsidiary of FGIC Corporation. On December 18, 2003, an investor group consisting of The PMI Group, Inc. ("PMI"), The Blackstone Group L.P. ("Blackstone"), The Cypress Group L.L.C. ("Cypress") and CIVC Partners L.P. ("CIVC") acquired approximately 95% of the common stock of FGIC Corporation (the "Common Stock") from General Electric Capital Corporation ("GE Capital"), a subsidiary of General Electric Company ("GE"). PMI, Blackstone, Cypress and CIVC acquired approximately 42%, 23%, 23% and 7%, respectively, of the Common Stock. Prior to the closing on December 18, 2003, Financial Guaranty paid GE Capital approximately \$284.3 million in cash dividends. GE retained direct or indirect ownership of approximately 5% of FGIC Corporation's common stock.

THE SYSTEM

The City owns, maintains, and operates a combined water supply and distribution, sewage collection and treatment, and stormwater system.

Water System

The City supplies water to virtually all residents within the City limits and to a portion of the population outside the City within Clark County (the "County"). The total area served is 69 square miles with 44 square miles inside City limits.

The City purchased the water utility from a private company in 1937. Since that time, the system has grown to become Washington's fourth largest with 866 miles of distribution pipe, five elevated reservoirs, five ground level reservoirs, 40 wells in nine well fields, 13 booster stations, and four water purification treatment plants. City wells tap the Orchards, the Columbia Alluvium and the Sandy River Mudstone aquifers. Wells vary in depth from 100 feet to over 1,000 feet and have a combined capacity of about 84 million gallons per day ("mgd"). Total reservoir storage amounts to 24.5 million gallons for fire protection and peak demand. Annual production currently exceeds 9.5 billion gallons. For reliability of service, major water production facilities are interconnected with large diameter transmission mains and booster pumps.

Largest Customers of the Water System For the year ended December 31, 2002

Customer	Product/Service	2002 Revenue	% of 2002 Water System Revenues
Frito Lay	Food Processing	\$ 402,647 ⁽¹⁾	1.83%
SEH America	Manufacturing	273,344	1.25%
NW Packing	Food Processing	119,662	0.55%
Airco / BOC Environmental	Commercial Gases	95,999	0.44%
Siemens	Manufacturing	56,672	0.26%
Veteran's Administration	Medical Care	43,266	0.20%
St. Joseph's Hospital	Medical Care	45,620	0.21%
Greenway Terrace	Housing	40,326	0.18%
Creekside Mobile Estates	Housing	35,125	0.16%
Bemis	Manufacturing	<u>30,791</u>	<u>0.14%</u>
Total		1,143,452	5.21%
All Others		<u>20,800,880</u>	<u>94.79%</u>
2002 Water Revenue		\$21,944,322	100.00%

⁽¹⁾ Amount excludes credit. The City and Frito Lay entered into an agreement in June 2002 providing Frito Lay with an annual credit against its water bill in exchange for certain capital contributions to the utility, plant investments and minimum payroll levels. The credit amount varies depending on the billed amount with a not to exceed amount of \$300,000.

Source: City of Vancouver

Water Rates and Charges

As of January 1, 2004, about 28 percent of the utility's customers (17,439 accounts) are located outside the City. A total population of approximately 216,800 residents live within the service area. Most of the water users (95 percent), both inside and outside the City, are residential customers. The following table shows typical monthly rates and charges for residential water service effective January 1, 2003. The single family charges assume a 5/8 inch meter while the multifamily charges assume a 12-unit building with a 1½ inch meter.

<u>Base Charge</u>	<u>Monthly Charge</u>
Inside City Limits	
Single Family	\$ 4.80
Multi-Family	18.05
Outside City Limits	
Single Family	7.20
Multi-Family	27.10
Volume charge per 100 cubic feet	
Inside City Limits	
Single Family	1.33
Multi-Family	1.15
Outside City Limits	
Single Family	2.00
Multi-Family	1.73

Source: City of Vancouver

Historical Water Operating Statistics

	Historical Water Operating Statistics				
	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
<u>Water Customers</u>					
Residential					
Inside City	41,674	40,972	40,495	39,654	38,775
Outside City	16,948	16,192	15,280	14,575	13,702
Commercial/Industrial/Govt.					
Inside City	2,592	2,472	2,427	2,385	2,332
Outside City	<u>491</u>	<u>476</u>	<u>463</u>	<u>442</u>	<u>404</u>
Total Water Connections	61,705	60,112	58,665	57,056	55,213
<u>Water Use</u>					
Minimum (mgd)	15.5	16.7	16.6	16.1	17.6
Maximum (mgd)	53.0	45.1	50.2	44.8	50.2
Annual (million gallons)	9,489	9,150	9,520	9,294	9,330
<u>Water System</u>					
Miles of Supply and Distribution Mains	866	850	827	810	791
Hydrants in Use	5,720	5,537	5,335	5,110	4,893
Wells	40	40	40	40	40
Pumping Capacity (mgd)	84.6	84.6	84.6	84.6	84.6
Storage (mg)	24.5	24.5	24.5	24.5	24.5

Source: City of Vancouver

Sewer System

The City's first sewage treatment plant was built in 1949. Since then, the City has committed itself to providing sewer and water service to a service area extending beyond the City limits to the east. In 1967, the City began construction of improvements to the sanitary sewer system in accordance with its comprehensive plan, which provides for extending major sewer trunks into enlarged drainage areas surrounding the City.

With the City's Westside and Marine Park Wastewater Treatment plants, and the related system of interceptor sewers, the City provides sanitary sewer service in a drainage basin that encompasses more than the area within the present corporate City limits. The service area extends east to the area that is serviced by the Clark County Public Sewer District No. 1. The City also operates a 90 million-gallon industrial waste treatment lagoon near the Westside Treatment Plant to treat industrial effluent for large food and beverage processors. The Westside Treatment Plant also includes a sludge incinerator.

These two wastewater facilities operate within the limits established by the two National Pollutant Discharge Elimination System Waste Discharge Permits ("NPDES") for secondary treatment. There have been no operating violations for either facility.

The capacities of the treatment plants as of December 1, 2003, are as follows:

<u>Facility</u>	<u>Current Flow</u>	<u>Permitted Capacity</u>	<u>Design Capacity</u>
Westside Secondary Treatment Plant	9.6 mgd	21.3 mgd	21.3 mgd
Marine Park Secondary Treatment Plant	9.8 mgd	16.1 mgd	16.1 mgd
Industrial Wastewater Pretreatment Lagoon	1.8 mgd	3.2 mgd	3.2 mgd

Source: City of Vancouver

All of the City's wastewater treatment facilities (the Westside Secondary Treatment Plant, Marine Park Secondary Treatment Plant, and the Industrial Wastewater Pretreatment Lagoon) are operated and maintained under a contract with U.S. Filter OS. The current operations contract with U.S. Filter OS extends to December 31, 2005.

**Largest Customers of the Sewer System
For the year ended December 31, 2002**

Customer	Product/Service	2002 Revenue	% of 2002 Sewer System Revenue
SEH America	Manufacturing	\$ 1,750,320	9.04%
Hazel Dell Sewer District	Public Utility	654,536	3.38%
Great Western Malting	Grain Processing	299,484	1.55%
Frito Lay	Food Processing	277,412	1.43%
Boomsnub/Airco	Manufacturing	158,786	0.82%
St. Joseph's Hospital	Medical Care	92,651	0.48%
URS Greiner Woodward Clyde	Manufacturing	80,750	0.42%
NW Packing	Food Processing	80,471	0.42%
Bemis Company	Manufacturing	61,280	0.32%
Veteran's Administration	Medical Care	<u>58,752</u>	<u>0.30%</u>
Total		3,514,442	18.15%
All Others		<u>15,851,894</u>	<u>81.85%</u>
2002 Sewer Revenue		\$19,366,336	100.00%

Source: City of Vancouver

Sewer Rates and Charges

The following are representative residential sewer rates and charges effective January 1, 2004. The City has different rates for customers inside and outside the City limits. The multi-family rates reflect a per unit charge for a 12-unit structure.

	<u>Monthly Charge</u>
Inside City	
Single Family	\$25.48
Multi-Family	21.04
Outside City	
Single Family	38.50
Multi-Family	31.02

Source: City of Vancouver

Historical Sewer Customers

	Historical Sewer Customers				
	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Residential					
Inside City	36,483	35,568	35,284	34,402	33,541
Outside City	<u>10,072</u>	<u>9,503</u>	<u>8,849</u>	<u>8,328</u>	<u>7,594</u>
Total Residential	46,555	45,071	44,133	42,730	41,135
Commercial/Industrial/Govt.	<u>2,144</u>	<u>2,084</u>	<u>2,043</u>	<u>2,009</u>	<u>1,952</u>
Total Sewer Customers	48,699	47,155	46,176	44,739	43,087

Source: City of Vancouver

Rate Study

The City engaged Financial Consulting Solutions Group, Inc. of Redmond, Washington ("FCSG") to perform a water and sewer rate study, which was completed in January 2001. The study included an analysis of revenue requirements, cost allocations, customer classifications and system development charges. In October 2001, the Council adopted the recommended rate and system development charge increases included in the study for 2001 and 2002.

FCSG found that, at the time of the study, the water and sewer revenues did not reflect each utility's respective shares of System costs. Specifically, the City's water rates generate more than the water required revenue while the sewer rates do not generate adequate revenue, especially in light of substantial new and planned investments in sewer facilities. However, the combined structure of the two utilities allows the City to take advantage of the total rate revenues for purposes of meeting coverage requirements on outstanding debt.

FCSG is in the process of completing a follow-up to their 2001 rate study. The follow-up study's preliminary recommendations affirmed the 2001 recommendation for 10% increases in sewer rates through 2006 with a 4% increase in sewer rates recommended for 2007. FCSG's preliminary recommendation is for no increases in water rates through 2010. System staff expect FCSG's recommendations to be presented to the City Council in the spring of 2004.

According to System staff, the City will phase in revisions to the rate structure that will, over time, shift the proportion of revenues produced by water and sewer rates to one that reflects each utility's operating and capital costs, primarily by increasing sewer rates over the next six years by an average of 10 percent each year and keeping water rates largely flat and by imposing system development charges that are more equitable both with respect to existing customers and the separate utility services. While the utilities will continue to be a combined entity for accounting purposes (and with respect to Parity Bond covenants), they will be managed on a separate basis to provide a clearer picture of the factors driving revenue requirements, and ultimately, more equitable rates.

Labor Contracts

The City's water and sewer utility has approximately 157 employees. As of the end of 2003, 115 of those employees were represented by a collective bargaining unit covered by a collective bargaining agreement. The number of employees in each collective bargaining unit is shown in the table below along with the expiration date of the respective contracts. System staff indicate that there are no significant issues that are pending resolution related to the collective bargaining agreements.

<u>Union</u>	<u>Number of Employees</u>	<u>Contract Expiration</u>
OPEIU	56	12/31/2005
AFSCME	59	12/31/2005

Water and Sewer System - Historical Operating Results

The table below details the historic operating results of the System and debt service coverage presented both on an actual basis and on an average annual debt service basis in compliance with Resolution M-2980 of the City described above under the heading "SECURITY FOR THE BONDS – Rate Covenant."

Water and Sewer System
Historical Operating Results
(Years Ended December 31)

	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Operating Revenues					
Charges for Services	\$ 44,883,802	\$ 43,588,184	\$ 42,035,650	\$ 38,863,951	\$ 34,597,999
Rents and Royalties	363,731	473,976	456,079	0	0
Miscellaneous	<u>716,197</u>	<u>699,898</u>	<u>1,485,443</u>	<u>424,226</u>	<u>402,654</u>
Total Operating Revenues	\$ 45,963,730	\$ 44,762,058	\$ 43,977,172	\$ 39,288,177	\$ 35,000,653
Operating Expenses					
Personnel Services	\$ 9,560,643	\$ 9,812,859	\$ 8,389,627	\$ 7,501,450	\$ 6,298,370
Supplies and Contractual Services	14,558,539	13,697,854	13,109,618	11,917,479	13,272,690
Interfund Services	4,929,599	5,326,037	4,719,335	4,617,361	3,926,533
Depreciation	<u>11,200,398</u>	<u>13,740,405</u>	<u>9,122,018</u>	<u>7,504,635</u>	<u>7,322,784</u>
Total Operating Expenses	\$ 46,160,108	\$ 48,108,902	\$ 40,687,495	\$ 36,698,353	\$ 35,388,196
Operating Income (Loss)	\$ (196,378)	\$ (3,346,844)	\$ 3,289,677	\$ 2,589,824	\$ (387,543)
Non-Operating Revenues (Expenses)					
Interest on Investments	2,675,859	4,948,511	5,487,641	3,061,498	2,779,487
State and federal grants	24,642	67,287	7,649	5,232	15,554
Charges for service	0	0	0	509,556	482,203
Interest and fiscal charges	(8,941,906)	(6,711,394)	(6,243,035)	(7,311,300)	(6,551,953)
Rents and royalties	0	0	0	435,225	353,521
Gain (loss) on disposal of assets	(508)	10,965	0	(892,377)	(47,763)
Miscellaneous revenue (expense)	<u>3,797,220</u>	<u>782,007</u>	<u>391,979</u>	<u>(424,845)</u>	<u>652,867</u>
Total Non-Operating Revenues (expenses)	\$ (2,444,693)	\$ (902,624)	\$ (355,766)	\$ (4,617,011)	\$ (473,155)
Income (loss) before contributions and transfers	(2,641,071)	(4,249,468)	2,933,911	(2,027,187)	(860,698)
Subtotal Available for Debt Service	(2,641,071)	(4,249,468)	2,933,911	(2,027,187)	(860,698)
Adjustments:					
Interest and Fiscal Charges	8,941,906	6,711,394	6,243,035	7,311,300	6,551,953
Depreciation Expense	11,200,398	13,740,405	9,122,018	7,504,635	7,322,784
Systems Development Charges	8,085,138	5,667,647	7,613,302	7,791,182	6,831,466
City Utility Tax	5,905,447	5,531,747	5,294,114	5,107,770	4,567,819
Balance Available for Debt Service	\$ 31,491,818	\$ 27,401,725	\$ 31,206,380	\$ 25,687,700	\$ 24,413,324
Actual Annual Debt Service	14,331,942	13,708,766	11,543,856	9,520,937	9,329,268
Actual Annual Debt Coverage Ratio	2.20	2.00	2.70	2.44	2.77
Average Annual Debt Service Coverage Test					
Balance Available for Debt Service	\$ 31,491,818	\$ 27,401,725	\$ 31,206,380	\$ 25,687,700	\$ 24,413,324
Average Annual Debt Service ⁽¹⁾	13,609,496	13,615,011	13,506,003	11,410,632	11,352,739
Average Annual Debt Service Coverage	2.31	2.01	2.31	2.25	2.15

(1) Average annual debt service calculated as of December 31 of the preceding calendar year.

Source: City of Vancouver

DEBT INFORMATION

Description of Outstanding Parity Bonds

Following the issuance of the Bonds, the System will have the following Parity Bonds outstanding:

Series	Authorizing Ordinance	Original Principal Amount	Outstanding Principal Amount
1993	M-3072	\$38,000,000	\$14,955,000
1995	M-3199	33,000,000	2,955,000
1997	M-3315	63,100,000	54,185,000
1998	M-3390	27,260,000	26,850,000
1999	M-3463	33,075,000	6,575,000
2002	M-3605	11,310,000	11,310,000
2004	M-3644	<u>26,250,000</u>	<u>26,250,000</u>
Total		\$231,995,000	143,080,000

Schedule of System Debt Service

Schedule of System Debt Service

<u>Year⁽¹⁾</u>	<u>Outstanding Bonds⁽²⁾</u>		<u>The Bonds</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
2004	\$ 7,225,000	\$ 5,541,348	\$ 30,000	\$ 972,842	\$ 13,769,190
2005	7,590,000	5,182,141	120,000	1,272,131	14,164,272
2006	7,965,000	4,807,410	125,000	1,269,681	14,167,091
2007	8,320,000	4,451,316	125,000	1,266,869	14,163,185
2008	8,695,000	4,073,409	130,000	1,263,519	14,161,928
2009	9,205,000	3,638,910	135,000	1,259,706	14,238,616
2010	8,340,000	3,205,406	1,455,000	1,235,856	14,236,262
2011	8,770,000	2,781,061	1,505,000	1,176,406	14,232,467
2012	9,210,000	2,330,806	1,595,000	1,098,906	14,234,712
2013	10,550,000	1,832,929	805,000	1,045,447	14,233,376
2014	6,735,000	1,401,020	2,600,000	963,613	11,699,633
2015	7,070,000	1,059,488	2,750,000	823,175	11,702,663
2016	7,435,000	697,006	2,895,000	674,994	11,702,000
2017	4,735,000	386,006	2,185,000	544,375	7,850,381
2018	4,985,000	130,856	2,305,000	432,125	7,852,981
2019			3,650,000	283,250	3,933,250
2020			<u>3,840,000</u>	<u>96,000</u>	<u>3,936,000</u>
Totals	<u>\$116,830,000</u>	<u>\$41,519,112</u>	<u>\$26,250,000</u>	<u>\$15,678,895</u>	<u>\$200,278,007</u>

(1) Based on Fiscal Years ending December 31, includes all payments made and to be made in 2004.

(2) Includes 1993 Bonds, 1995 Bonds, 1997 Bonds, 1998 Bonds, 1999 Bonds and 2002 Bonds; excludes the Refunded Bonds.

Capital Improvement Program and Additional System Parity Bonds

The City has developed a six-year capital improvement program for both its water and sewer utilities. The table below represents budgeted and funded projects. The City plans to fund these projects using current capital reserves and System revenues. Detailed within the City's current budget, the remaining portion of the six-year capital improvement program is summarized below:

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>Totals</u>
Water System Projects	\$2,115,000	\$2,000,000	\$3,000,000	\$3,000,000	\$2,000,000	\$12,115,000
Sewer System Projects	3,345,000	0	0	0	0	3,345,000
Utility Operating Projects	<u>5,363,412</u>	<u>1,500,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>6,863,412</u>
Totals	\$10,823,412	\$3,500,000	\$3,000,000	\$3,000,000	\$2,000,000	\$22,323,412

Source: City of Vancouver

CITY OF VANCOUVER

The City, which was incorporated in 1857, adopted the Council-Manager form of government in 1952 with a mayor and six member council (the "Council") elected by popular vote. The Mayor appoints the City Manager (with majority approval of the Council) to provide administrative direction for the City. The City provides services per its charter. The City operates its own Police, Fire, Park and Recreation, and Public Works Departments (which includes the System and a solid waste utility). The City lies on the north bank of the Columbia River, directly across from Portland, Oregon on Interstate 5, 100 miles inland from the Pacific Ocean. The City is a commercial seaport and is the County seat. As of April, 2003, Vancouver ranked fourth in size among Washington cities in terms of population.

Principal City Officers

Current members of the Council are:

<u>Member</u>	<u>Position</u>	<u>Term Expires</u>
Royce E. Pollard	Mayor	12/31/2005
Jeanne Harris	Council Member	12/31/2005
Pat Jollota	Council Member	12/31/2005
Tim Leavitt	Council Member	12/31/2007
Larry Smith	Council Member	12/31/2007
Jeanne Stewart	Council Member	12/31/2005
Dan Tonkovich	Council Member	12/31/2007

Royce E. Pollard, Mayor. Royce Pollard became mayor of the City on January 1, 1996. After a 27 year career in the United States Army, he retired as Command of Vancouver Barracks in 1989 and immediately began his political career as a Council member.

Mayor Pollard is a native of Burlington, Vermont, and a graduate of the University of Alabama. He currently serves as a member of the Southwest Washington Regional Transportation Council, chair of the Vancouver Fire and Police Pension Boards, member of the Vietnam Veterans of America, member of the American Legion Post # 14, member of 40 et 8, and member of the Columbia River Chapter of Retired Officers Association.

Pat McDonnell, City Manager. Pat McDonnell was approved by the Council as City Manager in September 2000. He has spent 28 years in public administration. Most recently, he was Assistant County Administrator for the County from June 1987 until February 1991 at which time he was appointed as Clark County Administrator. He served in that position until March 1998 when he was appointed as Vancouver Deputy City Manager, the position he held until his appointment as City Manager.

A native of Minnesota, Mr. McDonnell holds both a BS in business administration and a MA in public administration from Minnesota State University. He is a member of the Executive Board of the Columbia River Economic Development Council (CREDC), a board member of the American Red Cross and a member of the Washington State University-Vancouver Advisory Council. Professional affiliations include membership in the Washington Association of City/County Administrators, International City Managers Association and Rotary Club of Vancouver.

Paul N. Lewis, Financial & Management Services Manager/City Clerk. Mr. Lewis joined the City in January 1999 after nearly five years in the Clark County Auditor's Office. The Financial & Management Services Department is responsible for accounting, accounts payable, payroll, accounts receivable, internal audit, treasury, budget, and management information systems. Prior to working in local government in Clark County and Vancouver, Mr. Lewis was a management consultant with Deloitte & Touche in their state and local government consulting practice. He has a BA in economics from Carleton College and an MBA in public policy and management from the University of Pennsylvania.

Carrie Lewellen, Treasurer. Carrie Lewellen was appointed by the City as Treasurer in March 2002. Prior to the appointment, she worked for Clark County in the Treasurer's Office for 14 years. She has a BA in business management from the Evergreen State College in the State of Washington, and has held the Certified Cash Manager designation from the Association for Financial Professionals since 1996.

Linda Gellings, Accounting Manager. Linda Gellings joined the City in September 1999. Linda was previously employed as an auditor with the Washington State Auditor's Office for over 10 years where she worked with state and local governmental accounting and auditing. Linda graduated from the University of Idaho in 1986 with a BS in Business Administration with a Major in Accounting. Linda is also a Certified Public Accountant in the State of Washington.

Ted Gathe, City Attorney. Ted H. Gathe has been the City Attorney for Vancouver, Washington since 1994. Prior to that time, he was the City's Chief Assistant City Attorney. He has a BA with honors from Claremont McKenna College and received his JD from the University of Idaho. While in private practice, he concentrated in the areas of real estate and land use and has served as a land use hearings officer as well as a city planning commissioner. Mr. Gathe is active in state and national municipal attorneys associations and currently serves as a member of the board of directors of the State Municipal Research Services Center.

General Information

The City prepares budgets in accordance with chapter 35.33 RCW. As background to the process, the City prepares a five year financial forecast of general operations. Biennial calendar year budgets are adopted by the Council for funds providing customary government services. Long-term, project-oriented budgets are adopted as required and amended as additional appropriations are needed. Special assessment and certain custodial agency funds are not budgeted. Within the constraint of the total budget, a change in appropriations within a fund may be authorized by the City Manager. All budgets are accounted for on a line-item basis with control at the object summary total level. Estimated purchase order amounts are encumbered prior to the release of the order to the vendor. Open encumbrances lapse at year-end and must be reappropriated or absorbed in the next year's operating budget.

Cities and counties of the State must comply with the Budgeting, Accounting, and Reporting System ("BARS") prescribed by the Office of the State Auditor as authorized under RCW 43.09.230. State laws also provide for annual independent audits by the Office of the State Auditor and require timely submission of annual financial reports to the State for review. The financial system of the City incorporates a system of financial administrative controls that ensure the safeguarding of assets and the reliability of financial reports and consequently are designed to provide reasonable assurance that transactions are executed in accordance with management authorization, recorded in conformity with Generally Accepted Accounting Principals ("GAAP") as applicable to governmental entities, that there exists accountability of and control over assets

and obligations, and that sufficient reporting and review exists to provide adequate information for analysis and comparability of data. The City implemented early Governmental Accounting Standards Statement 34, *Basic Financial Statements—and Management Discussion and Analysis—for Local Governments* in 2001. Internal control is an area of audit by the State Auditor, as well, and City management receives and takes action upon recommendations made by the State Auditor. The City's financial statements are subject to annual audit by the State Auditor. The last audit covered the year ending December 31, 2002. The report thereon contained an unqualified opinion regarding the City's 2002 financial statements. Copies of the State Auditor's Report may be obtained by contacting the Office of State Auditor in Olympia, Washington, or at <http://www.sao.wa.gov/Reports/auditfinding/AuditResult.asp?f=main&opt=1>. **Neither the information on the website of the State Auditor, nor any links from that website, is part of this Official Statement, and such information cannot be relied upon to be accurate as of the date of this Official Statement, nor should any such information be relied upon to make investment decisions regarding the Bonds.**

Pension Fund

The City and its employees contribute to two mandatory municipal employee retirement systems administered by the State. The Public Employees Retirement System ("PERS") is mandatory for all non-uniformed regular employees and effective December 31, 2003 required a 1.40% of payroll contribution from the City for PERS Plan I and 1.40% for PERS Plan II, and 1.40% for the PERS Plan III. In 2003, the City contributed a total of \$506,927 to these three plans and covered 729 employees. The Law Enforcement Officers and Firefighters ("LEOFF") Retirement Plan likewise is mandatory for all uniformed fire and police employees who were active or hired on or after March 1, 1970. Effective December 31, 2003, the City's contribution rates were 0.22% of payroll for LEOFF Plan I and 3.25% for LEOFF Plan II depending upon an employee's hire date. During 2003, the City contributed a total of \$704,082 toward both plans for 345 employees.

The City also administers a Firefighters' Pension Fund and Police Officers' Pension Fund for employees hired prior to March 1, 1970. These funds provide full pension and medical benefits for those retired prior to March 1, 1970, and partial pension and full medical benefits for those hired prior to March 1, 1970, but retiring thereafter. The latest actuarial study for the Firefighters' Pension Fund (January 2003) determined an actuarial deficiency of \$3,240,000. Contributions are being made annually to the Firefighters' Pension Fund on a 13-year funding schedule which will end in the year 2010. The 2003 actuarial deficiency determined for the Police Officers' Pension Fund was \$3,292,000. The actuarial study relating to the Police Pension Fund has a different statistical profile than for the Firefighters' Pension Fund. Future policy pension payouts stay flat, not increasing to a peak as future fire pension payouts do. It thus appears that the City can safely use a pay-as-you-go policy in the Police Pension Fund and not increase its actuarial deficiency.

Insurance

During 1977, the City became a qualified self-insurer for workers' compensation as an alternative to the State program. In 1978, all local governments within the State were brought under the State unemployment tax coverage, which also allowed qualified cities to become self-insured. The City qualified and became self-insured in 1978. The City established a Self-Insurance Internal Service Fund to account for and finance its insured and uninsured risks of loss. The fund addresses claims in four areas of risk that include general liability, worker's compensation, unemployment, and property. Commercial insurance is purchased to handle risk of loss. In the past three years, none of the settlements exceeded the City's purchased insurance coverage. Information on each area is as follows:

General Liability. The Self-Insurance costs for liability claims in 2002 totaled \$370,564. Historically, there have been approximately 100 claims filed against the City for any given year. There were 141 claims filed for 2002. The fund pays the majority of claims involving general liability but has various liability coverage's through specific policies. Currently, the City's specific policies include airpark liability at a cost of \$5,088. Coverage is at \$5,000,000 for Liability and \$5,000,000 for hangar keepers legal. In addition, the City

purchases excess liability insurance for all City operations including auto, for a limit of \$10,000,000 at a cost of \$286,784. The excess policy provides \$1,000,000 Self Insured Retention. The City also purchases Liability on specific autos' up to \$1,000,000 at a cost of \$35,114.

Worker's Compensation. The City is self-insured through the fund for worker's compensation; however, an excess coverage policy is carried at a premium cost of \$52,248. The policy has a \$400,000/\$750,000 deductible. The costs of claims for workers' compensation totaled \$419,328 in 2002. This amount represents payments made for prior years as well as 2002. Approximately 125 claims were processed in 2002.

Property. The City carries fire damage insurance (Buildings and Business Personal Property), fleet physical damage coverage, boiler and machinery, and flood insurance coverage at a cost of \$385,984. Policy coverage for fire damage is up to \$249,657,632 with a \$50,000 deductible. This represents replacement cost for all City buildings and contents. Fleet physical damage coverage is maintained for catastrophic event coverage up to a \$12,874,001. The deductible for Fleet Physical Damage is \$25,000. The Boiler and Machinery coverage is maintained at a limit of \$100,000,000 with a \$5,000 deductible. 125 property claims were reported for 2002. Property claim costs during 2002 totaled \$157,410. This amount represents payments made for prior years as well as 2002.

Contributions and Reserves. City fund contributions to the Self-Insurance Fund are determined using information from the contributing funds past claims experience and loss exposures. As of December 31, 2002, the retained earnings totaled \$1,215,386. The claims liability reported in the fund totaled \$1,917,314 for the period ending December 31, 2002. The amount reported is as follows:

Liability Reserves

Open Claims	\$ 380,150
Incurred But Not Reported	<u>676,193</u>
Total Liability Reserves	<u>1,056,343</u>

Property Reserves

Open Claims	139,902
Incurred But Not Reported	<u>77,847</u>
Total Property Reserves	<u>217,749</u>

Worker's Compensation Reserves

Open Claims	362,241
Incurred But Not Reported	<u>280,981</u>
Total Worker's Compensation Reserves	<u>643,222</u>

Total Liability Reserves \$1,917,314

The claims liability, as reported in the fund, is based on the requirements of GASB Statement 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and that the amount of the loss can be reasonably estimated. Changes in the fund's claims liability amount in 2001 and 2002 are as follows:

Year	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year End
2002	1,251,262	789,171	123,119	1,917,314
2001	1,530,932	398,313	677,983	1,251,262

Investment Policy

The City has a formal investment policy and has established an Investment Committee, consisting of the Financial & Management Services Manager, the Treasurer and the Treasury Accountant. The City's primary investment objectives are: (1) to provide safety of principal as the foremost objective, followed by, (2) liquidity to meet operating requirements, and (3) yield through a generally passive investment approach. RCW 36.29.020, 35.39.030, 36.33.070, 39.58.130, and 39.60.010 provide authorization for the purchase of various types of security instruments.

Deposits. The Federal Deposit Insurance Corporation ("FDIC") insures the City's deposit up to \$100,000. All deposits not covered by FDIC are covered under the State Public Deposit Protection Commission Act of 1969. The total City deposits held in a qualified public depository may not exceed the depository's net worth.

Investments. The City's investments are categorized to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured, registered, or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the financial institution's trust department or counter-party's agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer or by its safekeeping department or agent but not in the City's name. All of the City's investments are currently Category 1 type investments, except for monies invested with the Washington State Local Government Investment Pool, which is not categorized.

City Investments (as of December 31, 2003)

	(In Thousands)	
	<u>Carrying Amount</u>	<u>Market Value</u>
US Government Agencies	\$138,710	138,928
State & County Local Government Investment Pools	62,838	62,838
Passbook/Money Market Accounts	<u>2,042</u>	<u>2,042</u>
Corporate Bonds	<u>2,541</u>	<u>2,655</u>
Total Investments	<u>\$206,131</u>	<u>\$206,463</u>

Throughout 2003, the City was in compliance with all statutes pertaining to the investment of City moneys.

LEGAL MATTERS

Tax Exemption

In the opinion of Preston Gates & Ellis LLP, Seattle, Washington, Bond Counsel, interest on the Bonds is excluded from gross income subject to federal income taxation pursuant to Section 103 of the Code, provided the arbitrage requirements of Section 148 of the Code described in this section under the heading "Continuing Requirements" are met. The Bonds are not private-activity Bonds and interest on the Bonds is not an item of tax preference for purposes of determining alternative minimum taxable income for individuals or corporations under the Code. However, interest on the Bonds is taken into account in the computation of adjusted current earnings for purposes of the corporate alternative minimum tax under Section 55 of the Code as more fully described in this section under the heading "Certain Federal Income Tax Consequences."

Except as described herein, Bond Counsel expresses no opinion on any federal, state or local tax consequence arising with respect to ownership of the Bonds.

Continuing Requirements

Section 148 of the Code has continuing arbitrage requirements that must be met subsequent to the issuance of the Bonds for the interest on the Bonds to be, and remain, exempt from regular federal income taxation. These requirements include provisions that prescribe investment yield limitations for the proceeds of the Bonds and that certain investment earnings be paid on a periodic basis to the federal government. The Bond Ordinance contains covenants of the City to comply with these continuing arbitrage requirements. Bond Counsel has not undertaken to determine (or to inform any person) whenever any action taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may affect the tax status of the interest on the Bonds.

Certain Federal Income Tax Consequences

The following is a discussion of certain federal tax matters under the Code. This discussion does not purport to deal with all aspects of federal taxation that may be relevant to particular Bondowners. Prospective Bondowners, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the Bonds, as well as any tax consequences arising under the laws of any state or other taxing jurisdiction.

Alternative Minimum Tax on Corporations. Section 55 of the Code imposes an alternative minimum tax on corporations equal to the excess of the tentative minimum tax for the taxable year over the regular tax for such year. The tentative minimum tax is based upon alternative minimum taxable income, which is regular taxable income with certain adjustments and increased by the amount of certain items of tax preference. One of the adjustments is a portion (75% for any taxable year beginning after 1989) of the amount by which a corporation's adjusted current earnings exceeds the corporation's alternative minimum taxable income (determined without regard to such adjustment and the alternative tax net operating loss deduction). Interest on tax-exempt obligations, such as the Bonds, is included in a corporation's adjusted current earnings.

For taxable years beginning after December 31, 1997, the corporate alternative minimum tax is repealed for small business corporations that had average gross receipts of less than \$5 million for the 3-year period beginning after December 31, 1994, and such small business corporations will continue to be exempt from the corporate alternative minimum tax so long as their average gross receipts do not exceed \$7.5 million.

Financial Institutions. The Code denies banks, thrift institutions and other financial institutions a deduction for 100% of their interest expense allocable to tax-exempt obligations, such as the Bonds.

Borrowed Funds. The Code provides that interest paid on funds borrowed to purchase or carry tax-exempt obligations during a tax year is not deductible. In addition, under rules used by the Internal Revenue Service for determining when borrowed funds are considered used for the purpose of purchasing or when carrying particular assets, the purchase of obligations may be considered to have been made with borrowed funds even though the borrowed funds are not directly traceable to the purchase of such obligations.

Property and Casualty Insurance Companies. The deduction for loss reserves for property and casualty insurance companies is reduced by 15% of the sum of certain items, including the interest received on tax-exempt Bonds, such as the Bonds.

Social Security and Railroad Retirement Benefits. The Code also requires recipients of certain Social Security or Railroad Retirement benefits to take into account, in determining gross income, receipts or accruals of interest that are exempt from federal income tax.

Branch Profits Tax. Certain foreign corporations doing business in the United States may be subject to a branch profits tax on their effectively connected earnings and profits, including tax-exempt interest on obligations such as the Bonds.

S Corporations. Certain S corporations that have Subchapter C earnings and profits at the close of a taxable year and gross receipts more than 25% of which are passive investment income, which includes interest on tax-exempt obligations, such as the Bonds, may be subject to a tax on excess net passive income.

Opinions of Counsel

Legal matters incident to the authorization, issuance, and sale of the Bonds by the City are subject to the approving legal opinion of Preston Gates & Ellis LLP, Seattle, Washington, Bond Counsel. A form of the legal opinion of Bond Counsel is attached hereto as Appendix B. Bond Counsel has reviewed this Official Statement only to confirm that the portions of it describing the Bonds and the authority to issue them, conform to the Bonds and the applicable laws under which they are issued. Certain legal matters will be passed upon for the Underwriter by its counsel, Gottlieb, Fisher & Andrews, PLLC, Seattle, Washington.

Litigation

There is no controversy or litigation pending, or to the best knowledge of the City threatened, affecting the issuance and delivery of the Bonds, or the power and authority of the City to issue the Bonds.

Enforceability

The provisions of the Bonds and the Bond Ordinance constitute contracts between the City and the owner or owners of the Bonds, and such provisions are enforceable by the Registered Owner or owners in a court of competent jurisdiction in the State by mandamus or other appropriate remedy, subject to judicial discretion and the valid exercise of sovereign police power of the State and may be limited by laws affecting the rights of creditors.

OTHER MATTERS

Continuing Disclosure Undertaking

General. In accordance with Section (b)(5) of Securities and Exchange Commission Rule 15c2-12 under the Securities Exchange Act of 1934, as the same may be amended from time to time (the "Rule"), the City has agreed in the Bond Ordinance to provide or cause to be provided to each nationally recognized municipal securities information repository ("NRMSIR") and to the state information depository for the State ("SID"), if any, in each case as designated by the Securities and Exchange Commission (the "Commission") in accordance with the Rule, the following annual financial information and operating data for the prior fiscal year (commencing in 2005 for the fiscal year ended December 31, 2004):

- (1) Annual financial statements showing ending fund balances for the System prepared in accordance with generally accepted accounting principles applicable to government entities (and modified as may be required by the Washington State Auditor pursuant to RCW 43.09.200 (or any successor statutes)) and generally of the type included in this Official Statement under the heading "THE SYSTEM—Water and Sewer System—Historical Operating Results."
- (2) Updated versions of the type of historical financial information and operating data contained in this Official Statement under the headings "THE SYSTEM—Water Rates and Charges," "—Historical Water Operating Statistics," "—Sewer Rates and Charges" and "—

Historical Sewer Customers” and “DEBT INFORMATION—Schedule of System Debt Service.”

Such annual information and operating data described above shall be provided on or before the expiration of nine months after the end of the City’s fiscal year. The City’s current fiscal year ends on December 31. The City may adjust such fiscal year by providing written notice of the change of fiscal year to each then existing NRMSIR and the SID, if any. In lieu of providing such annual financial information and operating data, the City may cross-reference to other documents provided to the NRMSIRs, the SID or to the Commission and, if such document is a final official statement within the meaning of the Rule, available from the MSRB.

If not provided as part of the annual financial information discussed above, the City shall provide the City’s audited annual financial statement prepared in accordance with regulations prescribed by the State Auditor pursuant to RCW 43.09.200 (or any successor statutes), when and if available, to each then existing NRMSIR and the SID, if any.

Material Events. The City agrees to provide or cause to be provided, in a timely manner, to the SID, if any, and to each NRMSIR or to the MSRB notice of the occurrence of any of the following events with respect to the Bonds, if such event is material:

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- (7) Modifications to rights of Bondholders;
- (8) Bond calls;
- (9) Defeasances;
- (10) Release, substitution or sale of property securing the repayment of the Bonds; and
- (11) Rating changes.

Solely for the purposes of disclosure, and not intending to modify this undertaking, the City advises that there is no property securing repayment of the Bonds.

Notification Upon Failure to Provide Financial Data. The City agrees to provide or cause to be provided, in a timely manner, to each NRMSIR or to the MSRB and to the SID, if any, notice of its failure to provide the annual financial information described above in this section under the subheading “General” on or prior to the date set forth above in such subsection.

Termination/Modification. The City’s obligations to provide annual financial information and notices of material events shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. The continuing disclosure requirement, and any related provision, shall be null and void if the City (1) obtains an opinion of nationally recognized bond counsel to the effect that those portions of the Rule which require continuing disclosure, are invalid, have been repealed retroactively or otherwise do not apply to

the Bonds; and (2) notifies each then existing NRMSIR and the SID, if any, of such opinion and the cancellation of this requirement. The continuing disclosure requirement may be amended, without the consent of the Bondowners, with an opinion of nationally recognized bond counsel in accordance with the Rule. In the event of any such amendment, the City shall describe such amendment in the next annual report, and shall include, a narrative explanation of the reason for the amendment and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a material event described above under the subheading "Material Events," and (ii) the annual report for the year in which the change is made shall present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Bondowner's Remedies Related to Continuing Disclosure Undertaking. A Bondowner's or a Beneficial Owner's right to enforce the provisions related to continuing disclosure undertaking shall be limited to a right to obtain specific enforcement of the City's obligations related thereto, and any failure by the City to comply with the provisions of this undertaking shall not be an Event of Default with respect to the Bonds under the Bond Ordinance. For purposes of this section, "Beneficial Owner" means any person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds, including persons holding Bonds through nominees or depositories.

Compliance with Existing Undertakings. The ordinance authorizing the issuance of the 1995 Bonds required that the City file its annual financial information by the end of the eighth month following the fiscal year end; the City failed to do so for the fiscal year ended December 31, 2001. The City filed its annual financial information for the fiscal year ended December 31, 2001 on September 30, 2002. The City has provided notice of its failure to file its annual financial information by the required deadline. The City has otherwise complied with the provisions of its various continuing disclosure undertakings. The failure of the City in any respect to comply with the terms related to continuing disclosure undertaking under the Bond Ordinance or with the terms of any other commitment for ongoing disclosure under the Rule shall not constitute an Event of Default under the Bond Ordinance.

Underwriting

The Bonds are being purchased by the Underwriter from the City at a price of 108.900% of par and will be re-offered at the aggregate price of 109.575% of par, subject to the terms of a purchase contract between the City and the Underwriter (the "Purchase Contract"). The Purchase Contract provides that the Underwriter shall purchase all of the Bonds if any are purchased and that the obligation to make such purchase is subject to certain terms and conditions set forth in the Purchase Contract, the approval of certain legal matters by counsel and certain other conditions. The initial public offering prices set forth on the cover hereof may be changed from time to time by the Underwriter. The Underwriter may offer and sell the Bonds into unit investment trusts or money market funds, certain of which may be sponsored or managed by the Underwriter, at prices lower than the public offering prices stated on the cover hereof.

Ratings

As noted on the cover page of this Official Statement, Moody's Investors Service, New York, New York ("Moody's"), and Standard & Poor's Ratings Services, New York, New York ("S&P"), have assigned their municipal bond rating of "Aaa" and "AAA," respectively, to the Bonds, with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the payment when due of the principal of and interest on the Bonds will be issued by Financial Guaranty Insurance Company. Moody's and S&P have also assigned underlying ratings of "A1" and "A+," respectively, to the Bonds. No application was made to any other rating agency for the purpose of obtaining an additional rating on the Bonds. Each rating reflects only the view of the applicable rating organization and an interpretation of such rating may be obtained only from the rating agency furnishing the same, at the following address: Moody's Investors Service, Inc., 99

Church Street, New York, New York 10007; Standard & Poor's Ratings Services, 55 Water Street, New York, New York 10041. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies, and assumptions of its own. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by the rating agencies, if, in judgment of such agencies, circumstances so warrant. Any such revision or withdrawal of either such rating may have an adverse effect on the market price of the Bonds.

CUSIP Numbers

It is anticipated that CUSIP identification numbers will be printed on the Bonds, but neither the failure to print such numbers on any Bonds or any error with respect thereto shall constitute cause for a failure or refusal by the purchaser hereof to accept delivery of and pay for said Bonds in accordance with the terms of the purchase contract. All expenses in relation to the printing of CUSIP numbers on said Bonds shall be paid by the City; provided, however, that the CUSIP Service Bureau charge for the assignment of said numbers shall be the responsibility of and shall be paid for by the purchaser.

Official Statement Certificate

At the time of delivery of the Bonds, one or more officials of the City will furnish a certificate stating that to the best of his or her knowledge, this Official Statement, as of its date and as of the date of delivery of the Bonds does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements contained herein, in light of the circumstances under which they were made, misleading.

Statements in this Official Statement, including matters of opinion, whether or not expressly so stated, are intended as such and not as representation of fact. This Official Statement is not to be construed as a contract or agreement between the City or the Underwriter and the purchasers of the Bonds. The preparation and distribution of this Official Statement has been authorized by the City.

CITY OF VANCOUVER, WASHINGTON

By: /s/ Carrie Lewellen
Its: Treasurer

APPENDIX A

DEMOGRAPHIC AND ECONOMIC INFORMATION

APPENDIX A DEMOGRAPHIC AND ECONOMIC INFORMATION

Industry

The City of Vancouver is located in southwest Clark County, Washington approximately 15 miles north of Portland, Oregon. It is the largest city in Clark County with a population of 148,800 as of April, 2003. The Vancouver PMSA (Clark County) has a diversified industrial base which includes the following types of industry: computer, steel fabrication, electronics, airplane repair, electric heat equipment, machine shops, fruit packing, furniture manufacturing, paper bags, brick and tile, ice manufacturing, grain elevator, malt plant, chemicals, clothing manufacturing, twine and ropes, concrete pipes and blocks, golf carts, fertilizer, industrial ceramics, disposable diapers, plastic bottles, cabinet manufacturing, luxury motor yachts, VCRs, plastic manufacturing, and snack food manufacturing.

Clark County's Largest Private Employers⁽¹⁾

Employer	Industry	Employees
1. Southwest Washington Medical Center	Health Care	3,046
2. Hewlett-Packard	Technology	1,700
3. Fred Meyer Stores	Retail	1,360
4. Georgia-Pacific	Manufacturing	1,250
5. Safeway Stores	Retail	1,202
6. SEH America Inc. ⁽²⁾	Manufacturing	922
7. Wafertech	Manufacturing	860
8. The Vancouver Clinic	Health Care	708
9. Kaiser Permanente	Health Care	638
10. Frito-Lay Inc.	Manufacturing	675

(1) Ranked by number of full-time employees within Clark County. Figures as of 11/01/02.

(2) In late September 2002, SEH America laid off 175 workers reducing its Vancouver area workforce to 935 employees.

Source: *Vancouver Business Journal*.

Clark County's Largest Public Employers*

Employer	Industry	Employees
1. Evergreen School District	School District	2,772
2. Vancouver Public Schools	School District	2,676
3. Clark County	County Government	1,542
4. Clark College	Community College	1,392
5. City of Vancouver	City Government	1,015
6. Bonneville Power Administration	Utilities, Power	1,000
7. Battle Ground School District No. 119	School District	894
8. Washougal School District No. 112	School District	585
9. Camas School District No. 117	School District	541
10. Educational Service District No. 112	School District	490

* Ranked by number of employees within Clark County. Figures as of 11/01/02.

Source: *Vancouver Business Journal*.

Population

Historical, current and estimated population data for Clark County and the City of Vancouver are the following:

<u>Year</u>	<u>Clark County</u>	<u>Percent Change</u>	<u>Vancouver</u>	<u>Percent Change</u>
2003	372,300	2.5%	150,700	1.3%
2002	363,400	3.0%	148,800	2.4%
2001	352,600	2.1%	145,300	1.2%
2000	345,238	2.3%	143,560	5.8%
1999	337,000	2.7%	135,100	2.4%

Source: State Office of Financial Management.

Income Data

Personal Income (\$/000s)

	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Clark County	10,335,767	10,100,784	9,454,418	8,687,713	8,095,779
State of Washington	191,763,140	184,517,693	174,876,529	161,069,171	150,202,630
United States	8,678,255,000	8,314,032,000	7,784,137,000	7,383,476,000	6,928,545,000

Source: US Bureau of Economic Analysis, U.S. Department of Commerce.

Per Capita Income

	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Clark County	\$28,763	\$29,085	\$27,159	\$25,954	\$25,253
State of Washington	32,025	31,230	29,819	28,285	26,469
United States	30,472	29,469	27,843	26,893	25,412

Source: US Bureau of Economic Analysis, U.S. Department of Commerce.

Labor Force Data

Employment Statistics (Annual Averages)

The following employment figures for Clark County are provided to characterize the area's labor market:

	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Labor Force	183,800	179,200	178,000	180,500	178,100
Employed	168,100	166,500	170,400	173,300	170,400
Unemployed	15,800	12,700	7,600	7,100	7,700
% Unemployed	8.6%	7.1%	4.2%	4.0%	4.4%

Source: Washington State Employment Security Department.

**Non-Agricultural and Salary Workers
Employed in Clark County (Annual Averages)⁽¹⁾**

	2002	2001	2000	1999	1998
MANUFACTURING	13,500	18,100	19,100	18,800	20,000
<u>Durable Goods:</u>	7,700	11,700	12,600	12,300	13,100
Lumber & Wood Products	700	1,000	1,000	1,000	1,200
Metals & Metal Products	1,100	900	1,400	1,500	1,700
Computers & Industrial Machinery	1,100	3,400	3,500	3,600	4,000
Electronics & Instruments	3,400	5,000	5,400	4,900	5,200
Other Durable Goods	1,400	1,400	1,300	1,300	1,100
<u>Non-durable Goods:</u>	5,800	6,400	6,600	6,600	6,900
Food Processing	1,200	1,200	1,100	1,200	1,100
Textiles & Apparel	2,200	700	700	800	1,000
Paper Products	1,200	2,600	2,700	2,600	2,700
Other Non-durable Goods	1,200	2,000	2,100	1,100	2,100
CONSTRUCTION & MINING	10,200	9,800	10,000	10,100	10,200
TRANSPORT & PUBLIC UTILITIES	6,300	7,300	6,900	6,700	6,300
WHOLESALE & RETAIL TRADE	17,300	27,400	28,500	27,500	25,900
FIN., INS & REAL ESTATE	5,500	4,600	4,600	5,000	5,300
SERVICES	42,900	30,900	28,600	26,700	26,600
GOVERNMENT	20,900	20,200	19,400	19,100	18,500
TOTAL	116,500	118,400	117,200	114,000	112,600

(1) Numbers may not add due to rounding.

Source: Washington State Employment Security Department.

Other Data

**City of Vancouver
Building Permits**

Year	Commercial Construction		Residential Construction ⁽¹⁾	
	Number of Permits	Valuation	Number of Living Units	Valuation
2003	784	\$126,706,894	1364	\$ 63,112,744
2002	747	103,152,352	990	46,078,186
2001	438	105,368,977	958	49,397,611
2000 ⁽²⁾	427	112,964,814	817	65,904,934
1999	3,383	89,739,228	1,427	115,302,893
1998	3,624	61,434,894	1,626	136,558,291
1997	3,487	137,828,769	1,878	145,030,670

(1) Includes new construction and additions and alterations.

(2) Changed computerized permit system in November 1999. New system accumulates and tracks information differently.

Source: City of Vancouver Building Department, Washington.

**City of Vancouver and Clark County
Taxable Retail Sales (\$000's)**

Year	City of Vancouver	Clark County
2002	\$1,924,333	\$3,499,221
2001	1,926,259	3,375,916
2000	1,946,247	3,312,943
1999	1,857,340	3,211,487
1998	1,781,776	3,158,997
1997	1,604,781	2,951,926

Source: Washington State Department of Revenue.

APPENDIX B
FORM OF LEGAL OPINION

APPENDIX B
FORM OF LEGAL OPINION

February 26, 2004

City of Vancouver, Washington

Piper Jaffray & Co.
Seattle, Washington

Re: City of Vancouver, Washington Water and Sewer Revenue Refunding Bonds, 2004 -
\$26,250,000

Ladies and Gentlemen:

We have acted as bond counsel to the City of Vancouver, Washington (the "City"), and have examined a certified transcript of all of the proceedings taken in the matter of the issuance by the City of its Water and Sewer Revenue Refunding Bonds, 2004, in the aggregate principal amount of \$26,250,000 (the "Bonds") issued pursuant to Ordinance No. M-3644 of the City (the "Bond Ordinance") for the purpose of refunding certain outstanding water and sewer revenue bonds of the City. Capitalized terms used in this opinion have the meanings given such terms in the Bond Ordinance.

The Bonds are not subject to redemption prior to their stated maturities.

As to questions of fact material to our opinion, we have relied upon representations of the City contained in the Bond Ordinance and in the certified proceedings and other certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

From such examination, as of this date and under existing law, we express the following opinions.

1. The Bonds have been legally issued and constitute valid special obligations of the City, both principal thereof and interest thereon being payable solely out of a special fund of the City known as the "Water and Sewer Revenue Bond Fund" (the "Bond Fund"), except to the extent that the enforcement of the rights and remedies of such owners of the Bonds may be limited by laws relating to bankruptcy, reorganization, insolvency, moratorium or other similar laws of general application affecting the rights of creditors, by the application of equitable principles and the exercise of judicial discretion.

2. The City has irrevocably bound itself to set aside and pay into the Bond Fund and the accounts therein out of Revenues of the System deposited into the Revenue Fund amounts necessary to pay the principal of and interest on the Bonds as the same become due.

3. By the Bond Ordinance the City has pledged that the payments to be made into the Bond Fund and the accounts therein from the Revenue Fund shall be a lien and charge upon the Revenues equal to the lien and charge upon such Revenues made for the payment of the principal of and interest on the Outstanding Parity Bonds and any Future Parity Bonds, and prior and superior to all other charges of any kind or nature whatsoever, except for the payment of Operating Expenses. The City has reserved the right to issue Future Parity Bonds on the terms set forth in the Bond Ordinance.

4. Interest on the Bonds is excluded from gross income for purposes of federal income taxation pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). The

Bonds are not private activity bonds. Interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals or corporations, but is taken into account in the computation of adjusted current earnings for purposes of the corporate alternative minimum tax under Section 55 of the Code. The opinions stated in this paragraph are subject to the condition that the City comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The City has covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause the interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds.

The Bonds are not "qualified tax-exempt obligations" for investment by financial institutions under the Code.

We have not been engaged nor have we undertaken to review the accuracy, completeness or sufficiency of the official statement or other offering material related to the Bonds (except to the extent, if any, stated in the official statement), and we express no opinion relating thereto, or relating to the undertaking by the City to provide ongoing disclosure pursuant to Securities and Exchange Commission Rule 15c2-12.

We express no opinion regarding any other federal, state or local tax consequences arising with respect to ownership of the Bonds.

This opinion is given as of the date hereof and we assume no obligation to update, revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,

PRESTON GATES & ELLIS LLP

By
Cynthia M. Weed

APPENDIX C

**EXCERPT FROM THE CITY'S
COMPREHENSIVE ANNUAL FINANCIAL REPORT**

Government-Wide Financial Statements

CITY OF VANCOUVER
STATEMENT OF NET ASSETS
December 31, 2002

	Governmental Activities	Business-type Activities	Total Primary Government	Component Units
ASSETS				
Cash, cash equivalents and pooled investments	\$ 92,445,967	\$ 89,098,603	\$ 181,544,570	\$ 865,305
Cash with fiscal/escrow agent	34,043	0	34,043	387,461
Receivables (net of allowance for uncollectible)	47,491,689	5,002,512	52,494,201	151,564
Internal balances	(317,827)	317,827	0	0
Due from component units	158,000	0	158,000	0
Inventories	216	755,180	755,396	0
Prepaid Items	285,244	0	285,244	0
Advances to other funds	1,610,000	(1,610,000)	0	0
Deferred Charges	316,770	1,464,520	1,781,290	0
Restricted assets				
Cash	0	2,426,638	2,426,638	6,375
Due from other governmental units	0	0	0	199,580
Capital assets (net of accumulated depreciation)				
Land	37,831,107	6,334,320	44,165,427	0
Buildings	26,117,572	16,669,418	42,786,990	0
Machinery and equipment	15,753,972	15,058,235	30,812,207	0
Infrastructure	82,444,521	305,090,308	387,534,829	0
Construction work in progress	28,186,001	19,646,896	47,832,897	0
TOTAL ASSETS	<u>332,357,275</u>	<u>460,254,457</u>	<u>792,611,732</u>	<u>1,610,285</u>
LIABILITIES				
Accounts payable and other current liabilities	9,094,781	2,700,884	11,795,665	85,795
Matured bonds and interest payable	25,000	0	25,000	15,000
Accrued interest payable	199,920	1,026,251	1,226,171	0
Due to the primary government	0	0	0	158,000
Unearned revenue	34,570	0	34,570	38,828
Custodial accounts	53,217	316,359	369,576	6,375
Noncurrent liabilities:				
Special assessment debt with governmental commitments	167,687	0	167,687	0
Due within one year	2,952,675	7,874,907	10,827,582	0
Due in more than one year	64,643,147	162,676,368	227,319,515	11,969
TOTAL LIABILITIES	<u>77,170,997</u>	<u>174,594,769</u>	<u>251,765,766</u>	<u>315,967</u>
NET ASSETS				
Invested in capital assets, net of related debt	122,737,351	195,403,479	318,140,830	0
Restricted for:				
Transportation	15,467,807	0	15,467,807	0
Capital	17,434,338	116,619	17,550,957	0
Debt Service	321,568	0	321,568	0
Public Safety	391,936	0	391,936	0
Other purposes	3,399,158	0	3,399,158	0
Unrestricted	95,434,120	90,139,590	185,573,710	1,133,824
TOTAL NET ASSETS	<u>\$ 255,186,278</u>	<u>\$ 285,659,688</u>	<u>\$ 540,845,966</u>	<u>\$ 1,133,824</u>

The notes to the financial statements are an integral part of this statement

CITY OF VANCOUVER
STATEMENT OF ACTIVITIES
Year Ended December 31, 2002

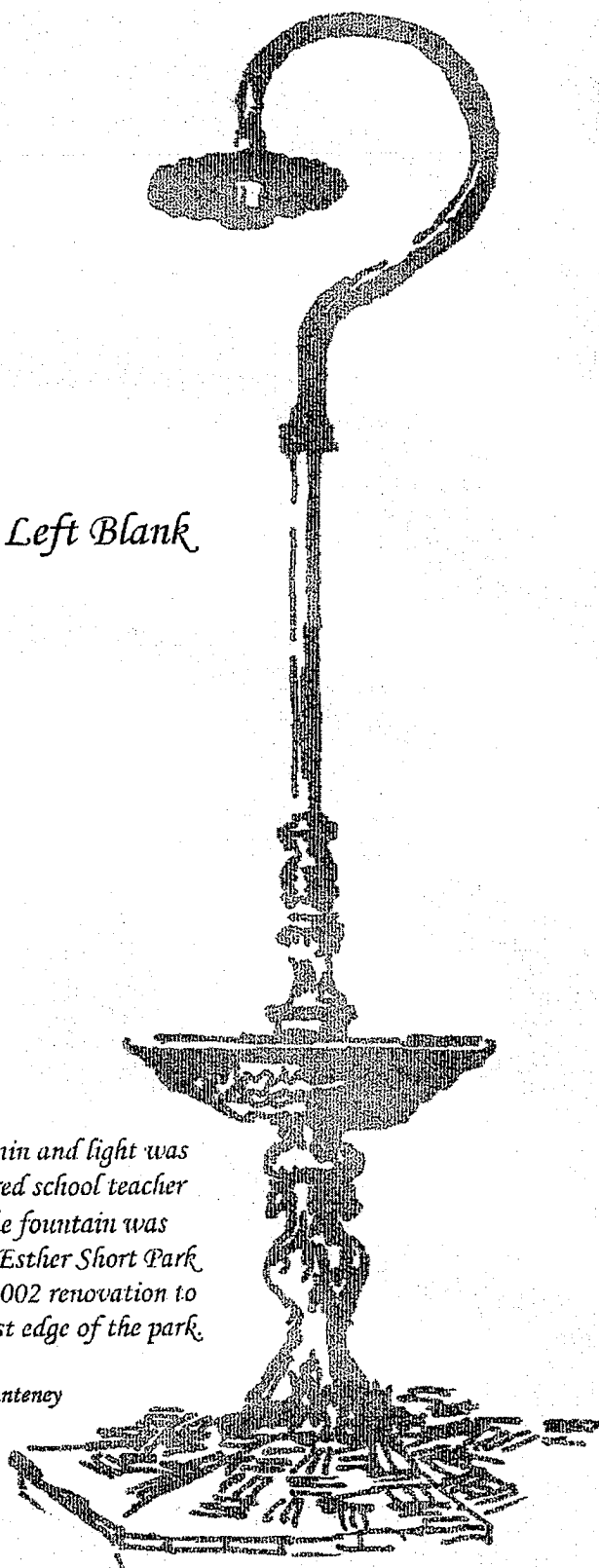
Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services, fees, fines and forfeitures	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities
PRIMARY GOVERNMENT						
Governmental Activities:						
General Government	\$ 18,190,213	\$ 7,027,716	0	0	(11,162,497)	0
Judicial	1,147,809	1,264,377	0	0	116,568	0
Public Safety	45,624,114	6,604,494	767,271	0	(38,252,349)	0
Physical Environment	1,430,560	97,292	0	0	(1,333,268)	0
Transportation	15,818,166	94,804	2,281,845	9,266,041	(4,175,476)	0
Health and Human Services	532,358	0	0	0	(532,358)	0
Economic Environment	8,128,009	7,675,273	781,145	1,501,833	1,830,242	0
Culture and Recreation	18,919,395	4,468,867	764,131	0	(13,686,397)	0
Interest on Long-Term Debt	3,045,613	0	0	0	(3,045,613)	0
TOTAL GOVERNMENTAL ACTIVITIES	112,836,237	27,232,823	4,594,392	10,767,874	(70,241,148)	0
Business Type Activities						
Water Sewer	55,102,522	49,760,950	24,642	13,022,954	0	7,706,024
Parking	2,086,034	1,404,571	0	0	0	(681,463)
Airpark	519,212	480,222	0	1,070,063	0	1,031,073
Building Inspection	3,508,740	3,899,846	0	0	0	391,106
Sanitation	2,328,020	2,718,687	0	0	0	390,667
Tennis Center	827,186	663,875	0	15,082	0	(148,229)
Fire Shop	851,284	901,248	0	0	0	49,964
TOTAL BUSINESS-TYPE ACTIVITIES	65,222,998	59,829,399	24,642	14,108,099	0	8,739,142
Total Primary Government	\$ 178,059,235	\$ 87,062,222	\$ 4,619,034	\$ 24,875,973	\$ (70,241,148)	\$ (61,502,006)
Component Units						
Development Authority	\$ 1,766,805	\$ 1,200,016	\$ 873,743	0	0	0
Facilities District	177,842	715,468	0	0	0	0
TOTAL COMPONENT UNITS	1,944,647	1,915,484	873,743	0	0	0
General Revenues:						
Taxes:						
Property Taxes Levied for General Purposes					31,637,316	0
Sales and Use Taxes					21,051,511	0
Business and Occupation Taxes					10,301,011	0
Excise Taxes					10,730,323	0
Penalties and Interest					30,135	0
Grants and Contributions not Restricted to Specific Programs					2,640,963	0
Unrestricted Investment Earnings					3,697,018	27,932
Miscellaneous					386,891	0
Transfers					(742,064)	0
Total General Revenues, Extraordinary, Special Items, and Transfers					79,213,512	27,932
Change in Net Assets					8,972,364	872,512
Net Assets - Beginning					246,213,914	516,948,818
Prior year adjustments					0	1,746,560
Net Assets - Ending					255,186,278	519,695,320
					\$ 540,845,966	\$ 1,133,824

The notes to the financial statements are an integral part of this statement

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This Victorian style drinking fountain and light was a gift to the community from a retired school teacher who loved children and animals. The fountain was originally installed in the center of Esther Short Park in 1905. It was moved during the 2002 renovation to the Rose Garden, located at the west edge of the park.

~ Drawing courtesy of Kelly Puntney



Fund
Financial Statements

CITY OF VANCOUVER
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2002

	General Fund	Street Fund	Consolidated Fire	Transportation Capital	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash, cash equivalents and pooled investments	\$ 15,194,519	\$ 2,682,796	\$ 5,231,943	\$ 6,428,155	\$ 50,297,023	\$ 79,834,436
Cash with fiscal/escrow agent	0	0	0	0	29,043	29,043
Receivables (net)						
Taxes/assessments	35,157,579	348,342	0	0	447,050	35,952,971
Accounts	684,779	65,617	152	0	365,326	1,115,874
Notes	0	0	0	0	1,476,754	1,476,754
Due from other funds	192,599	0	0	139,444	10,610	342,653
Interfund loan receivable	308,185	0	0	0	0	308,185
Due from other governmental units	183,579	196,446	0	7,911,039	654,576	8,945,640
Due from component units	158,000				0	158,000
Inventory	0	0	216	0	0	216
Prepaid items	260,244	0	0	0	0	260,244
Advances to other funds	1,610,000	0	0	0	0	1,610,000
TOTAL ASSETS	\$ 53,749,484	\$ 3,293,201	\$ 5,232,311	\$ 14,478,638	\$ 53,280,382	\$ 130,034,016
LIABILITIES AND FUND BALANCE						
Liabilities						
Accounts payable	\$ 1,489,407	\$ 296,655	\$ 96,750	\$ 1,434,280	\$ 1,376,764	\$ 4,693,856
Matured bond principal payable	0	0	0	0	25,000	25,000
Due to other funds	102,010	141,986	0	0	432,257	676,253
Interfund loan payable	0	0	0	0	308,185	308,185
Due to other governmental units	0	0	0	0	209,705	209,705
Accrued liabilities	2,440,067	200,436	639,410	87,495	273,259	3,640,667
Revenues collected in advance	13,727	0	0	343	20,500	34,570
Custodial accounts	31,637	0	0	0	0	31,637
Deferred revenues	31,521,171	0	0	15,000	124,300	31,660,471
Total liabilities	35,598,019	639,077	736,160	1,537,118	2,769,970	41,280,344
Fund balances						
Reserved for						
Inventories	0	0	216	0	0	216
Non current receivables	1,918,185	0	0	0	0	1,918,185
Debt service	0	0	0	0	321,568	321,568
Capital	5,826,804	0	0	0	12,135,820	17,962,624
Other purposes	305,979	0	2,000	0	1,474,652	1,782,631
Unreserved	10,100,497	2,654,124	4,493,935	12,941,520	0	30,190,076
Unreserved, reported in nonmajor:						
Special revenue funds	0	0	0	0	36,578,372	36,578,372
Total fund balance	18,151,465	2,654,124	4,496,151	12,941,520	50,510,412	88,753,672
TOTAL LIABILITIES AND FUND BALANCES	\$ 53,749,484	\$ 3,293,201	\$ 5,232,311	\$ 14,478,638	\$ 53,280,382	

Amounts reported for governmental activities in the statement of net assets are different because (See Note II also):

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	184,274,933
Other long-term assets are not available to pay for current-period expenditures and, therefore are deferred in the funds	31,962,241
Internal service funds are used to charge the costs of services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets	16,015,773
Long-term liabilities that are not due and payable in the current period and are not reported in the funds	(65,813,761)
Net assets of governmental activities	\$ 255,192,858

The notes to the financial statements are an integral part of this statement

CITY OF VANCOUVER
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the year ended December 31, 2002

	General Fund	Street Fund	Consolidated Fire	Transportation Capital	Other Governmental Funds	Total Governmental Funds
REVENUES						
Property taxes	\$ 30,638,233	0	0	0	0	\$ 30,638,233
Sales and use taxes	17,076,998	\$ 1,777,520	0	0	2,227,128	21,081,646
Other taxes	20,733,427	0	0	0	297,907	21,031,334
License and permits	654,090	240,577	\$ 134,108	0	0	1,028,775
Intergovernmental	4,262,176	2,261,552	5,528,658	\$ 7,267,766	4,624,606	23,944,758
Charges for services	9,633,563	40,840	13,442	13,192	6,166,139	15,867,176
Fines and forfeits	1,344,545	0	0	0	74,766	1,419,311
Interest earnings	722,740	0	144,601	197,927	1,727,618	2,792,886
Rents and royalties	636,196	0	0	0	29,149	665,345
Contributions/donations	53,236	1,003	325	34,513	332,751	421,828
Miscellaneous	191,459	21,087	204,953	563,138	775,995	1,756,632
Total revenues	<u>85,946,663</u>	<u>4,342,579</u>	<u>6,026,087</u>	<u>8,076,536</u>	<u>16,256,059</u>	<u>120,647,924</u>
EXPENDITURES						
Current						
General government	15,152,538	0	0	0	1,628,754	16,781,292
Judicial	1,147,809	0	0	0	0	1,147,809
Security/persons & property	26,180,367	0	17,963,950	0	249,685	44,394,002
Physical environment	526,390	0	0	0	2,324	528,714
Transportation	2,433,398	9,920,599	0	1,116,833	225	13,471,055
Economic environment	4,608,506	0	0	0	3,428,693	8,037,199
Mental and physical health	191,789	0	0	0	0	191,789
Culture and recreation	12,381,900	0	0	0	5,385,910	17,767,810
Capital projects	0	0	617,205	13,723,930	7,459,918	21,801,053
Debt service						
Principal retirement	0	0	0	0	2,394,775	2,394,775
Interest/fiscal charges	0	0	0	0	3,148,800	3,148,800
Total expenditures	<u>62,622,697</u>	<u>9,920,599</u>	<u>18,581,155</u>	<u>14,840,763</u>	<u>23,699,084</u>	<u>129,664,298</u>
Excess (deficiency) of revenues over expenditures	23,323,966	(5,578,020)	(12,555,068)	(6,764,227)	(7,443,025)	(9,016,374)
OTHER FINANCING SOURCES (USES)						
Capital related debt issued	0	0	0	0	1,600,000	1,600,000
Refunding bond issued	0	0	0	0	24,584,951	24,584,951
Payment to refunded bond escrow account	0	0	0	0	(24,583,525)	(24,583,525)
Transfers in	362,148	5,639,215	12,940,320	10,239,139	7,148,332	36,329,154
Transfers out	(24,541,532)	0	(9,334)	0	(12,520,352)	(37,071,218)
Total other financing sources and uses	<u>(24,179,384)</u>	<u>5,639,215</u>	<u>12,930,986</u>	<u>10,239,139</u>	<u>(3,770,594)</u>	<u>859,362</u>
Net change in fund balances	(855,418)	61,195	375,918	3,474,912	(11,213,619)	(8,157,012)
FUND BALANCES - BEGINNING	<u>19,006,883</u>	<u>2,592,929</u>	<u>4,120,233</u>	<u>9,460,028</u>	<u>61,724,031</u>	<u>96,904,104</u>
FUND BALANCES - ENDING	<u>\$ 18,151,465</u>	<u>\$ 2,654,124</u>	<u>\$ 4,496,151</u>	<u>\$ 12,934,940</u>	<u>\$ 50,510,412</u>	<u>\$ 88,747,092</u>

CITY OF VANCOUVER

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES Year Ended December 31, 2002

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - total governmental funds:	\$	(8,157,012)
--	----	-------------

Governmental funds report capital outlays as expenditures. However in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expenses. This is the amount by which capital outlays exceeded depreciation in the current period.	16,218,239
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The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets.	(27,500)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	965,844
--	---------

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	823,637
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	112,030
---	---------

Internal service funds are used by management to charge the costs of equipment, insurance and printing to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.	(962,874)
	<u>\$ 8,972,364</u>

CITY OF VANCOUVER
GENERAL FUND
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
COMPARED TO BUDGET (GAAP BASIS) AND ACTUAL
Biennium Ended December 31, 2002**

	Budget Amounts		Actual	
	Original	Final	Biennium-	Variance
	2001-2002	2001-2002	To- Date	
	Biennium	Biennium	Thru 12/31/02	Thru 12/31/02
REVENUES				
Taxes	\$ 118,613,918	\$ 118,613,918	\$ 129,868,131	\$ 11,254,213
License and permits	1,140,982	1,140,982	1,233,966	92,984
Intergovernmental	11,449,333	11,449,333	10,877,871	(571,462)
Charges for services	19,910,708	19,910,708	19,499,651	(411,057)
Fines and forfeits	2,420,327	2,420,327	2,565,704	145,377
Miscellaneous:				
Interest earnings	1,001,000	1,001,000	2,110,338	1,109,338
Rents and royalties	149,000	149,000	891,309	742,309
Contributions/donations	0	0	89,215	89,215
Other miscellaneous	393,000	393,000	426,829	33,829
Total revenues	155,078,268	155,078,268	167,563,014	12,484,746
EXPENDITURES				
Current:				
General government	32,768,172	39,287,979	30,565,553	8,722,426
Security/persons & property	38,628,280	38,797,913	46,815,833	(8,017,920)
Physical environment	895,437	953,154	990,274	(37,120)
Transportation	5,869,679	5,934,687	5,205,602	729,085
Economic environment	8,526,272	8,751,197	8,359,128	392,069
Mental and physical health	543,000	431,000	389,259	41,741
Culture and recreation	23,789,661	25,038,692	23,673,334	1,365,358
Total expenditures	111,020,501	119,194,622	115,998,983	3,195,639
Deficiency of revenues under expenditures	44,057,767	35,883,646	51,564,031	15,680,385
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	0	0	24,000	24,000
Operating transfers in	2,605,000	0	2,351,436	2,351,436
Operating transfers out	(47,938,008)	(54,144,985)	(55,260,606)	(1,115,621)
Total other financing sources (uses)	(45,333,008)	(54,144,985)	(52,885,170)	1,259,815
Net change in fund balance	(1,275,241)	(18,261,339)	(1,321,139)	16,940,200
FUND BALANCES AT BEGINNING OF BIENNIUM	19,472,604	19,472,604	19,472,604	0
FUND BALANCES AT END OF BIENNIUM	\$ 18,197,363	\$ 1,211,265	\$ 18,151,465	\$ 16,940,200

The notes to the financial statements are an integral part of this statement

CITY OF VANCOUVER

STREET FUND

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
COMPARED TO BUDGET (GAAP BASIS) AND ACTUAL**

Biennium Ended December 31, 2002

	Budget Amounts		Actual Biennium- To- Date Thru 12/31/02	Variance Thru 12/31/02
	Original 2001-2002 Biennium	Final 2001-2002 Biennium		
REVENUES				
Taxes	\$ 3,000,000	\$ 3,000,000	\$ 3,420,314	\$ 420,314
License and permits	200,000	200,000	443,644	243,644
Intergovernmental	4,218,000	4,218,000	4,523,390	305,390
Charges for services	650,000	650,000	522,283	(127,717)
Other miscellaneous	180,000	180,000	30,015	(149,985)
Total revenues	8,248,000	8,248,000	8,939,646	691,646
EXPENDITURES				
Current:				
Transportation	15,866,440	20,655,334	19,199,831	1,455,503
Total expenditures	15,866,440	20,655,334	19,199,831	1,455,503
Excess (deficiency) of revenues over expenditures	(7,618,440)	(12,407,334)	(10,260,185)	2,147,149
OTHER FINANCING SOURCES (USES)				
Operating transfers in	11,013,700	11,013,700	11,008,403	(5,297)
Operating transfers out	(3,356,018)	(3,356,018)	(223,731)	3,132,287
Total other financing sources (uses)	7,657,682	7,657,682	10,784,672	3,126,990
Excess (deficiency) of revenues and other sources over expenditures and other uses	39,242	(4,749,652)	524,487	5,274,139
FUND BALANCES AT BEGINNING OF BIENNIUM	1,761,246	1,761,246	2,129,637	368,391
FUND BALANCES AT END OF BIENNIUM	\$ 1,800,488	\$ (2,988,406)	\$ 2,654,124	\$ 5,642,530

CITY OF VANCOUVER**CONSOLIDATED FIRE FUND****STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES****COMPARED TO BUDGET (GAAP BASIS) AND ACTUAL****Biennium Ended December 31, 2002**

	Budget Amounts		Actual Biennium- To- Date Thru 12/31/02	Variance Thru 12/31/02
	Original 2001-2002 Biennium	Final 2001-2002 Biennium		
REVENUES				
License and permits	0	0	\$ 243,493	\$ 243,493
Intergovernmental	\$ 10,715,000	\$ 10,715,000	10,172,018	(542,982)
Charges for services	0	0	28,392	28,392
Interest earnings	164,000	164,000	469,657	305,657
Contributions/donations	0	0	825	825
Other miscellaneous	200,000	200,000	253,495	53,495
Total revenues	11,079,000	11,079,000	11,167,880	88,880
EXPENDITURES				
Current:				
Security/persons & property	36,245,305	36,761,610	36,919,624	(158,014)
Total expenditures	36,245,305	36,761,610	36,919,624	(158,014)
Deficiency of revenues under expenditures	(25,166,305)	(25,682,610)	(25,751,744)	(69,134)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	25,469,200	25,469,200	25,590,518	121,318
Operating transfers out	0	0	(9,334)	(9,334)
Total other financing sources (uses)	25,469,200	25,469,200	25,581,184	111,984
Net change in fund balance	302,895	(213,410)	(170,560)	42,850
FUND BALANCES AT BEGINNING OF BIENNIUM	1,589,411	1,589,411	4,666,711	3,077,300
FUND BALANCES AT END OF BIENNIUM	\$ 1,892,306	\$ 1,376,001	\$ 4,496,151	\$ 3,120,150

The notes to the financial statements are an integral part of this statement

CITY OF VANCOUVER
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2002

	Enterprise Funds				(Governmental Activities)
	Water/Sewer	Off-Street Parking	Other Enterprise	Total	Internal Service Funds
ASSETS					
Current assets					
Cash, cash equivalents and pooled investments	\$ 79,589,124	\$ 616,938	\$ 8,892,541	\$ 89,098,603	\$ 12,611,531
Cash with fiscal/escrow agent	0	0	0	0	5,000
Receivables (net)					
Accounts	3,395,985	383,406	44,482	3,823,873	450
Due from other funds	268,770	0	94,359	363,129	21,169
Due from other governmental units	3,563	0	96,936	100,499	0
Inventory	579,879	0	175,301	755,180	0
Prepaid expenses	0	0	0	0	25,000
Total current assets	<u>83,837,321</u>	<u>1,000,344</u>	<u>9,303,619</u>	<u>94,141,284</u>	<u>12,663,150</u>
Noncurrent assets					
Restricted assets					
Cash and cash equivalents	1,873,981	116,619	436,038	2,426,638	0
Deferred charges	1,207,565	210,119	46,836	1,464,520	0
Contracts receivable	1,078,140	0	0	1,078,140	0
Capital assets					
Land and improvements	5,017,461	832,657	484,202	6,334,320	0
Construction in progress	5,039,899	13,391,588	1,215,409	19,646,896	0
Other improvements	406,577,435	49,166	669,573	407,296,174	0
Buildings	8,836,397	5,506,232	8,177,647	22,520,276	0
Intangible assets	2,549,446	0	0	2,549,446	0
Machinery and equipment	21,805,474	338,884	599,411	22,743,769	15,585,172
Less accumulated depreciation	(113,679,183)	(1,109,001)	(3,503,520)	(118,291,704)	(9,526,932)
Total noncurrent assets	<u>340,306,615</u>	<u>19,336,264</u>	<u>8,125,596</u>	<u>367,768,475</u>	<u>6,058,240</u>
TOTAL ASSETS	<u>\$ 424,143,936</u>	<u>\$ 20,336,608</u>	<u>\$ 17,429,215</u>	<u>\$ 461,909,759</u>	<u>\$ 18,721,390</u>

The notes to this financial statement are an integral part of this statement

CITY OF VANCOUVER
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2002

	Enterprise Funds				(Governmental Activities)
	Water/Sewer	Off-Street Parking	Other Enterprise	Total	Internal Service Funds
LIABILITIES					
Current liabilities					
Accounts payable	\$ 1,772,915	\$ 17,344	\$ 177,671	\$ 1,967,930	\$ 427,899
Claims and judgments payable	0	0	0	0	1,917,314
Due to other funds	0	14,171	31,131	45,302	5,396
Due to other governmental units	0	0	88	88	0
Accrued interest payable	930,648	67,025	28,578	1,026,251	0
Accrued employee benefits	610,803	19,507	250,515	880,825	134,272
Bonds, notes and loans payable	5,380,013	415,000	488,318	6,283,331	0
Total current liabilities	<u>8,694,379</u>	<u>533,047</u>	<u>976,301</u>	<u>10,203,727</u>	<u>2,484,881</u>
Noncurrent liabilities					
Custodial accounts	279,777	0	36,582	316,359	0
Advances from other funds	0	1,610,000	0	1,610,000	0
Bonds, notes and loans payable from restricted assets - current	1,873,981	0	942,509	2,816,490	0
Bonds, notes and loan payable	141,315,886	15,313,993	3,603,788	160,233,667	0
Accrued employee benefits	826,836	45,550	197,442	1,069,828	220,736
Total noncurrent liabilities	<u>144,296,480</u>	<u>16,969,543</u>	<u>4,780,321</u>	<u>166,046,344</u>	<u>220,736</u>
TOTAL LIABILITIES	<u>\$ 152,990,859</u>	<u>\$ 17,502,590</u>	<u>\$ 5,756,622</u>	<u>\$ 176,250,071</u>	<u>\$ 2,705,617</u>
NET ASSETS					
Invested in capital assets, net of related debt	\$ 189,727,948	\$ 1,799,456	\$ 3,876,075	\$ 195,403,479	\$ 6,058,240
Restricted for capital purposes	0	116,619	0	116,619	0
Unrestricted	81,425,129	917,943	7,796,518	90,139,590	9,957,533
TOTAL NET ASSETS	<u>\$ 271,153,077</u>	<u>\$ 2,834,018</u>	<u>\$ 11,672,593</u>	<u>\$ 285,659,688</u>	<u>\$ 16,015,773</u>

The notes to this financial statement are an integral part of this statement

CITY OF VANCOUVER
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Fiscal Year Ended December 31, 2002

	Enterprise Funds				(Governmental Activities) Internal Service Funds
	Water/Sewer	Off-Street Parking	Other Enterprise	Total	
OPERATING REVENUES					
Charge for services	\$ 44,883,802	0	\$ 8,152,079	\$ 53,035,881	\$ 14,097,897
Fines and forfeits	0	\$ 571,781	14,690	586,471	0
Rents and royalties	363,731	780,115	473,240	1,617,086	0
Insurance recoveries	0	0	0	0	628,387
Miscellaneous	716,197	52,675	23,869	792,741	264,327
Total operating revenues	<u>45,963,730</u>	<u>1,404,571</u>	<u>8,663,878</u>	<u>56,032,179</u>	<u>14,990,611</u>
OPERATING EXPENSES					
Personnel services	9,560,643	275,482	3,392,224	13,228,349	1,810,755
Supplies and contractual services	20,469,468	322,765	2,467,653	23,259,886	12,586,038
Interfund services	4,929,599	176,681	1,530,981	6,637,261	542,475
Depreciation	<u>11,200,398</u>	<u>279,845</u>	<u>342,546</u>	<u>11,822,789</u>	<u>1,582,838</u>
Total operating expenses	<u>46,160,108</u>	<u>1,054,773</u>	<u>7,733,404</u>	<u>54,948,285</u>	<u>16,522,106</u>
Operating income (loss)	(196,378)	349,798	930,474	1,083,894	(1,531,495)
NONOPERATING REVENUES (EXPENSES)					
Interest earnings	2,675,859	709,546	311,613	3,697,018	360,850
State and federal grants	24,642	0	1,085,145	1,109,787	0
Interest and fiscal charges	(8,941,906)	(1,031,261)	(295,056)	(10,268,223)	0
Loss on disposal of assets	(508)	0	(5,982)	(6,490)	10,658
Miscellaneous revenue (expense)	<u>3,797,220</u>	<u>0</u>	<u>0</u>	<u>3,797,220</u>	<u>1,317</u>
Total nonoperating revenues (expenses)	<u>(2,444,693)</u>	<u>(321,715)</u>	<u>1,095,720</u>	<u>(1,670,688)</u>	<u>372,825</u>
Income (loss) before contributions and transfers	(2,641,071)	28,083	2,026,194	(586,794)	(1,158,670)
Capital contributions	13,022,954	0	0	13,022,954	195,796
Transfers in	253,440	619,000	192,742	1,065,182	0
Transfers out	<u>(59,118)</u>	<u>0</u>	<u>(264,000)</u>	<u>(323,118)</u>	<u>0</u>
Change in net assets	10,576,205	647,083	1,954,936	13,178,224	(962,874)
TOTAL NET ASSETS - BEGINNING	258,830,312	2,186,935	9,717,657	270,734,904	16,978,647
Prior year adjustments	<u>1,746,560</u>	<u>0</u>	<u>0</u>	<u>1,746,560</u>	<u>0</u>
TOTAL NET ASSETS - ENDING	<u>\$ 271,153,077</u>	<u>\$ 2,834,018</u>	<u>\$ 11,672,593</u>	<u>\$ 285,659,688</u>	<u>\$ 16,015,773</u>

CITY OF VANCOUVER
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended December 31, 2002

(Page 1 of 2)

	Enterprise Funds				(Governmental Activities)
	Water/Sewer	Off-Street Parking	Other Enterprise	Total	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers	\$ 46,556,250	\$ 971,981	\$ 8,606,376	\$ 56,134,607	\$ 14,113,428
Cash received from other operating activities	716,197	54,716	2,066	772,979	892,714
Cash payments for goods and services	(19,163,813)	(307,367)	(2,602,633)	(22,073,813)	(11,552,892)
Internal activity - payments to other funds	(4,929,599)	(162,510)	(1,259,039)	(6,351,148)	(542,475)
Cash payments to employees	(9,391,238)	(246,949)	(3,350,924)	(12,989,111)	(1,872,890)
Net cash provided by operating activities	<u>13,787,797</u>	<u>309,871</u>	<u>1,395,846</u>	<u>15,493,514</u>	<u>1,037,885</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Payment for interest on debt	0	0	(87,496)	(87,496)	0
Principal paid on debt	0	0	(265,000)	(265,000)	0
Proceeds from interfund notes	0	0	0	0	(5,521)
Receipt of grant funds	0	0	1,049,104	1,049,104	0
Transfers from other funds	0	619,000	180,961	799,961	0
Operating subsidies and transfers to other funds	(59,118)	0	(264,000)	(323,118)	0
Net cash used by noncapital financing activities	<u>(59,118)</u>	<u>619,000</u>	<u>613,569</u>	<u>1,173,451</u>	<u>(5,521)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Increase in receivables	0	0	(66,929)	(66,929)	0
Principal paid on capital debt	(18,006,748)	(13,985,000)	(2,796,072)	(34,787,820)	0
Interest paid on capital debt	(8,015,911)	(1,072,670)	(212,673)	(9,301,254)	0
Purchase of capital assets	(3,824,191)	(13,243,765)	(1,215,409)	(18,283,365)	(875,540)
Proceeds from sale of capital assets	0	0	0	0	15,615
Receipt of claim settlement	3,796,712	0	0	3,796,712	0
Proceeds from capital debt	11,310,000	13,000,000	2,847,534	27,157,534	0
Payment of debt issuance costs	(178,938)	(735,001)	(222,192)	(1,136,131)	0
Transfers from other funds	0	1,610,000	0	1,610,000	0
Capital contributions	8,106,218	0	15,082	8,121,300	0
Net cash provided by capital and related financing activities	<u>(6,812,858)</u>	<u>(14,426,436)</u>	<u>(1,650,659)</u>	<u>(22,889,953)</u>	<u>(859,925)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Receipt of interest	2,741,960	905,151	385,513	4,032,624	579,776
Receipt of notes receivable or interfund loan	281,052	0	0	281,052	0
Issuance of notes receivable or interfund loan	(653,561)	0	0	(653,561)	0
Purchase of investments	55,969,111	0	0	55,969,111	0
Proceeds from sales of investments	0	12,961,330	6,323,307	19,284,637	9,182,871
Net cash used in investing activities	<u>58,338,562</u>	<u>13,866,481</u>	<u>6,708,820</u>	<u>78,913,863</u>	<u>9,762,649</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS					
	65,254,383	368,916	7,067,576	72,690,875	9,935,088
CASH AND CASH EQUIVALENTS - BEGINNING					
	16,208,722	364,641	2,261,003	18,834,366	2,676,443
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 81,463,105</u>	<u>\$ 733,557</u>	<u>\$ 9,328,579</u>	<u>\$ 91,525,241</u>	<u>\$ 12,611,531</u>
Cash and cash equivalents	\$ 79,589,124	\$ 616,938	\$ 8,892,541	\$ 89,098,603	\$ 12,611,531
Restricted cash and cash equivalents	1,873,981	116,619	436,038	2,426,638	0
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 81,463,105</u>	<u>\$ 733,557</u>	<u>\$ 9,328,579</u>	<u>\$ 91,525,241</u>	<u>\$ 12,611,531</u>

The notes to the financial statements are an integral part of this statement

CITY OF VANCOUVER
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended December 31, 2002

(Page 2 of 2)

	Enterprise Funds				(Governmental Activities)
	Water/Sewer	Off-Street Parking	Other Enterprise	Total	Internal Service Funds
Reconciliation of operating income (loss) to net cash used by operating activities:					
Net operating income (loss)	\$ (196,378)	\$ 349,798	\$ 930,474	\$ 1,083,894	\$ (1,531,495)
Adjustments to reconcile net operating income (loss) to net cash provided by operations:					
Depreciation expense	11,200,398	279,845	342,546	11,822,789	1,582,838
(Increase) Decrease in receivables	1,308,717	(377,874)	(39,037)	891,806	15,530
(Increase) Decrease in inventories	136,211	0	(21,801)	114,410	0
(Increase) Decrease in prepaid assets	44,370	0	(10,246)	34,124	(6,500)
Increase (Decrease) in current payables	1,140,405	15,398	152,610	1,308,413	1,039,646
Increase (Decrease) in accrued employee benefits	169,405	28,533	41,300	239,238	(62,134)
Increase (Decrease) in payables due to other funds	0	14,171	0	14,171	0
Payment of claim settlement	(15,331)	0	0	(15,331)	0
Total adjustments	13,984,175	(39,927)	465,372	14,409,620	2,569,380
Net cash provided by operating activities	\$ 13,787,797	\$ 309,871	\$ 1,395,846	\$ 15,493,514	\$ 1,037,885
Noncash investing, financing and capital activities					
Capital assets donated	\$ 4,937,816	0	0	\$ 4,937,816	\$ 195,796
Loans to customers for connection to utility	(82,433)	0	0	(82,433)	0
Net change in fair value of investments	854,889	\$ 7,699	\$ 97,897	960,485	132,356
Disposal of capital assets	0	0	0	0	(385,463)

CITY OF VANCOUVER
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
December 31, 2002

	<u>Pension Trust Funds</u>	<u>Agency Funds</u>	<u>Total</u>
ASSETS			
Cash, cash equivalents and pooled investments	\$ 1,205,761	\$ 2,072,549	\$ 3,278,310
Investments (at fair value)	5,019,192	0	5,019,192
Receivables:			
Interest	69,004	0	69,004
Accounts	158,964	380,692	539,656
Prepaid expenses	<u>30,215</u>	<u>0</u>	<u>30,215</u>
TOTAL ASSETS	<u>6,483,136</u>	<u>2,453,241</u>	<u>8,936,377</u>
LIABILITIES			
Vouchers and accrued employee payables	25,459	91,041	116,500
Due to other governmental units	<u>0</u>	<u>2,362,200</u>	<u>2,362,200</u>
TOTAL LIABILITIES	<u>25,459</u>	<u>2,453,241</u>	<u>2,478,700</u>
NET ASSETS			
Held in trust for pension benefits	<u>\$ 6,457,677</u>	<u>\$ 0</u>	<u>\$ 6,457,677</u>

CITY OF VANCOUVER
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
For The Year Ended December 31, 2002

	<u>Pension Trust Funds</u>
Additions:	
Employer Contributions	
For pension benefits	\$ 859,083
For postemployment healthcare benefits	<u>688,435</u>
Total Contributions	<u>1,547,518</u>
Investment Income	
Interest earnings	<u>559,715</u>
Total Investment Income	<u>559,715</u>
Total Additions	<u>2,107,233</u>
Deductions:	
Pension benefits	941,345
Healthcare premium subsidies	688,436
Administrative expense	<u>9,603</u>
Total Deductions	<u>1,639,384</u>
Net Increase in fiduciary net assets	467,849
Net assets - beginning	<u>5,989,828</u>
Net assets - ending	<u>\$ 6,457,677</u>

The notes to the financial statement are an integral part of this statement

CITY OF VANCOUVER

NOTES TO FINANCIAL STATEMENTS

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Vancouver conform to generally accepted accounting principles as applied to city governments. The following is a summary of the more significant policies:

A. REPORTING ENTITY

The City of Vancouver was incorporated January 23, 1857. The city operates under a Council-Manager form of government and provides services per its charter adopted February 10, 1952, and last amended September 17, 1996.

The Comprehensive Annual Financial Report of the City of Vancouver includes the primary government and its component units, entities for which the city is considered to be financially accountable. The discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the government.

Discretely Presented Component Units:

The Vancouver Area Development Authority (VADA) is a special purpose government established in 1986 to carry out two basic functions: (1) to operate and maintain the City of Vancouver's historic officer housing, turned over to the city by the United States Government on September 4, 1984; and (2) to develop various other city properties to improve city livability through economic development. The VADA Board is composed of seven (7) members who are appointed by the City Council of Vancouver. The city is able to impose its will on VADA; however, VADA's services do not exclusively or almost exclusively benefit the City of Vancouver. Therefore, financial statements are discretely presented as a business type activity in the city's annual financial report.

The Public Facilities District (PFD) is a special purpose government established to develop a Hotel/Convention Center in downtown Vancouver. The PFD board is comprised of five (5) members appointed by the City Council of Vancouver. The city is able to impose its will on the district; however, PFD's services do not exclusively or almost exclusively benefit the City of Vancouver. Therefore, financial statements are discretely presented as a business type activity in the city's annual financial report.

Unless noted otherwise in this report, the accounting policies of the component units are consistent with those described for the primary government. VADA and PFD issue separate financial statements which can be obtained from the City of Vancouver.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Fund financial statements are separate financial statements provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

CITY OF VANCOUVER

NOTES TO FINANCIAL STATEMENTS

The *street fund* was established for the administration of street oriented maintenance and construction.

The *consolidated fire fund* accounts for money received and the expenditures made in providing fire services to the combined City and Fire District 5 service area.

The *transportation capital fund* was established to account for all capital projects in the transportation department.

The government reports the following major proprietary fund:

The *water and sewer fund* accounts for the activities of the city's utility. Its revenues are received from the sales of materials and supplies. Expenses are for maintenance and extensions of drainage, water and sewer service facilities, operating a water supply system, maintaining sewer treatment plants and operating a water drainage system. This fund also reflects the operation of revenue bonds outstanding, the funds available for redemption of bonds, cumulative reserve and construction funds.

The *off-street parking fund* accounts for revenues received from the operations of city owned or operated public parking lots. Expenses are directly related to the operation and maintenance of those facilities.

Additionally, the government reports the following fund types:

Debt service funds account for the resources accumulated and payments made for principal and interest on the general government except those required to be accounted for in another fund.

Special revenue funds account for the proceeds of specific revenue sources to finance specific activities as required by law or administrative regulation. Their revenues are earmarked to finance certain activities or functions.

Capital project funds account for the acquisition or development of capital facilities for governmental activities. Their major sources of revenues are from proceeds from general obligation bonds, grants from other agencies and contributions from other funds.

Internal service funds account for data processing and fleet management services provided to other departments or agencies of the government, or to other governments on a cost reimbursement basis.

The *pension trust funds* accounts for the activities of the Police Pension funds and the Firemen's Pension funds, which accumulates resources for pension benefit payments to qualified public safety employees.

Agency funds represent assets held in a trustee or agency capacity for others and do not report results of operations.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. Basis relates to the timing of the measurements made, regardless of the measurement focus applied.

Governmental fund financial statements report the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Certain indirect costs have been included as part of the program expenses reported for the various functional activities.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the city.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

CITY OF VANCOUVER

NOTES TO FINANCIAL STATEMENTS

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water Sewer Enterprise fund, of the Off-Street Parking Enterprise fund, of the non-major enterprise funds, and of the government's internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

1. Deposits and investments

The city's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash resources of individual funds are invested directly into government securities with interest accruing for the benefit of the specific fund. This policy covers all funds operated by the city. Cash resources required for immediate reasons (within the next month) are invested to the extent possible in short-term investments such as repurchase agreements with interest accruing to the benefit of each individual fund based on the monthly average cash balance of each fund.

Statutes authorize the city to invest in obligations of the U.S. Treasury, U.S. Agencies, and instrumentality's, banker's acceptances, repurchase agreements, and the state treasurer's investment pool. The city is also authorized to enter into reverse repurchase agreements, but did not participate in these investments during 2002. The Pension Trust Fund is also authorized to invest in corporate bonds rated A or better by Standard & Poor's Corporation, or A or better by Moody's Bond Ratings.

Investments for the city, as well as for its component units, are reported at fair value. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares. The city as of December 31, 2002 had \$56,367,235 the Washington State local investment pool and \$2,655,683 in the Clark County Local Government Investment Pool, which was classified as cash equivalents.

For purposes of the statement of cash flows, the city considers the state and local government investment pools and all highly liquid investments with a maturity of three months or less to be cash equivalents.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 180 days comprise the trade accounts receivable allowance for uncollectibles.

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Taxes are levied annually before December 15, and become a lien as of January 1, on property value listed as of the prior May 31. Assessed values are established by the county assessor at 100 percent of fair market value. A revaluation of all property is required every four years.

Taxes are due in two equal installments on April 30 and October 31. The county treasurer remits collections monthly to the appropriate district. Taxes receivable consists of property taxes and related interest and penalties. (See Note IV J) Accrued interest receivable consists of amounts earned on investments, notes and contracts at the end of the year.

CITY OF VANCOUVER

NOTES TO FINANCIAL STATEMENTS

Special assessments are recorded when levied. Special assessments receivable consists of current and delinquent assessments and related interest and penalties. Deferred assessments consist of unbilled special assessments that are liens against the property benefited.

Customer accounts receivable consists of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared. Notes and contracts receivable consists of amounts owed on open account from private individuals or organizations for goods and services rendered.

3. Inventories and prepaid items

The inventory carried by the Water-Sewer Fund is valued at average cost and is average cost when issued. A physical count is taken once a year. The inventory in the Storeroom Fund is valued at cost and is charged out at cost plus an 11% handling fee when issued. Inventory for the Fire Shop Fund is valued at cost and is charged out at cost plus 15%. Items purchased from inventory are disbursed on a first-in-first-out basis.

Inventories of governmental funds are recorded as expenditures when purchased rather than when consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Restricted assets

These accounts contain resources for construction and debt service in enterprise funds. Certain proceeds of the Water Sewer enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they may be maintained in separate bank accounts and their use is limited by applicable bond covenants.

The current portion of related liabilities are shown as Payables from Restricted Assets. Specific debt service reserve requirements are described in Note IV, Sec. H.

5. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the city as assets with an initial, individual cost of more than \$10,000 (amount not rounded) and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

<u>Asset Category</u>	<u>Useful Life</u>
Buildings	20
Infrastructure	40
Structures	20-35
Leasehold Improvements	5
Utility Improvements	20-50
Other Improvements	5
Rolling Stock	5-15
Information Tech Equipment	4
Equipment	5
Software	5

The city has acquired certain assets with funding provided by federal financial assistance programs. Depending on the terms of the agreements involved, the federal government could retain an equity interest in these assets. However, the city has sufficient legal interest to accomplish the purposes for which the assets were acquired, and has included such assets within the applicable column in the statement of net assets.

CITY OF VANCOUVER

NOTES TO FINANCIAL STATEMENTS

6. Compensated absences

It is the city's policy to permit employees to accumulate earned but unused vacation benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

7. Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premium and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS

The governmental fund balance sheet includes a reconciliation between *fund balance—total governmental funds* and *net assets—governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this difference are as follows:

Bonds Payable	\$ (58,648,540)
Less: Deferred charge on refunding (to be amortized as interest expense)	2,071,279
Plus: Issuance premium (to be amortized as interest income)	(2,419,063)
Accrued Interest Payable	(199,920)
Due to other governments	(395,073)
Special assessment debt	(167,687)
Capital lease payable	(418,796)
Net Pension Obligation	0
Compensated Absences	(5,635,961)
Net adjustment to reduce fund balance - total governmental funds to arrive at <i>net assets - governmental activities</i>	\$ <u>(65,813,761)</u>

B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances—total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental

CITY OF VANCOUVER

NOTES TO FINANCIAL STATEMENTS

funds report capital outlays as expenditures." However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this difference are as follows:

Capital Outlay	\$ 21,765,212
Depreciation expense	<u>(5,546,973)</u>
Net adjustment to increase <i>net changes in fund balances-total</i> governmental funds to arrive at <i>changes in net assets of governmental</i> <i>activities</i>	<u>\$ 16,218,239</u>

Another element of that reconciliation states that "the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this \$823,637 difference are as follows:

Debt issued or incurred:	
Issuance of general obligation bonds	\$ (23,714,020)
Plus premiums	(2,380,931)
Deferred refunding debt	1,999,093
Deferred issuance costs	336,053
Principal repayments:	
General obligation debt	24,530,234
Special assessment debt	24,344
Payment on capital lease	28,864
Net adjustment to decrease <i>net changes in fund balances-total</i> governmental funds to arrive at <i>changes in net assets of governmental</i> <i>activities</i>	<u>\$ 823,637</u>

Another element of that reconciliation states that "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of this \$112,030 difference are as follows:

Compensated absences	\$ (111,028)
Pension Obligation	96,180
Accrued interest	173,706
Amortization of issuance costs/deferred amount on refunding	(70,518)
Amortization of bond discounts/premiums	<u>23,690</u>
Net adjustment to decrease <i>net changes in fund balances-total</i> governmental funds to arrive at <i>changes in net assets of governmental</i> <i>activities</i>	<u>\$ 112,030</u>

NOTE III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY INFORMATION

The city prepares a biennial budget for all funds in accordance with the Municipal Code 35.33 of the Revised Code of Washington that is on a basis consistent with generally accepted accounting principles. All funds except custodial agency funds are budgeted to the fund level. Council may only approve any increase in expenditures above the amounts authorized by the original budget ordinance. Biennially appropriated budgets are adopted for the general, certain special revenue, debt service, proprietary and pension trust funds. Certain special revenue funds and capital project funds adopt project length budgets.

Budget amounts shown in the basic financial statements include the original budget amounts and all appropriation transfers and adjustments approved by the City Manager or City Council, as required. The City Manager is authorized as the chief executive officer to approve intra-fund budget transfers from one department to another or between line items of the same department. The City Council only has the authority to increase or decrease a given fund's annual budget. This is executed by city ordinance.

CITY OF VANCOUVER

NOTES TO FINANCIAL STATEMENTS

The calendar below outlines the process for preparing, reviewing and adopting the Biennial Budget. In addition, since the process for developing the Biennial Budget begins early in the off year, and revenue and expenditure estimates are based on approximately six months of actual data, state statutes provide for a mid-biennial review and modification of the Biennial Budget. Modifications are proposed by departments and reviewed by Budget Office staff in conjunction with the City Manager and his/her management team. The changes must be presented to the City Council no later than the third week of October of the first year of the Biennial Budget for an effective date of January 1st of the second year. Adoption by the City Council requires a public hearing in the month of November. In addition, the city typically adopts a clean-up ordinance at the end of each fiscal year to ensure all expenditures are appropriated by ordinance and interfund borrowing are authorized by the City Council. As is the case for all ordinances, a public hearing is required. These procedures are in accordance with RCW's:

JANUARY-MARCH

- Began Strategic Plan update process.
- Completed a Community Survey – a statistically valid random sample.
- Updated the budget calendar and modified the City's Budget Preparation Information System.

APRIL-JUNE

- Met with City Council to revise the City's Budget Policies and Guidelines
- Conducted focus groups with members of the community and City employees to better understand community and organization priorities.
- Finalized the budget process. This year's process included initial allocations to departments that were less than 100% of their expected 2001-2002 expenses.
- Developed a budget preparation manual and oriented department staff on the budget process and the modifications to the Budget Preparation Information System.
- Provided departments with initial budget allocations and access to the Budget Preparation Information System where they distributed their initial allocations to programs.

JULY-SEPTEMBER

- Updated the City's Strategic Plan including six new strategic commitments
- Met with department staff to review their initial budget submissions.
- Developed a five-year revenue and expense forecast.
- Assessed proposed capital facilities needs for 2001-2006.
- Held televised workshops with City Council on the budget process, financial forecast and Capital Facilities needs.

OCTOBER-DECEMBER

- Developed the City Manager's Preliminary Recommended budget.
- Presented the Preliminary Recommended Budget to City Council in televised workshop sessions and provided Council members with a detailed notebook on the proposed budget.
- Held a televised public forum on the City Manager's Preliminary Recommended Budget.
- Filed the City's Preliminary Budget with the City Clerk and made copies available to the public.
- Held workshop sessions with the City Council in November.
- Held two Public Hearings on the Preliminary Recommended Budget in December
- City Council adopted the City's 2002 property tax levy and 2001-2002 Budget in December.

The final budget as adopted is published within the first three months of the new budget year, distributed to various agencies such as: neighborhood associations, the Chamber of Commerce, and made available to all interested citizens.

Biennial appropriations lapse at the end of the biennium. Budgets established within a fund on a project basis do not lapse, but are carried forward from year-to-year until fully expended or the project is completed or abandoned, without necessity of re-appropriation. Proprietary funds are budgeted on the full accrual basis and are for management control.

CITY OF VANCOUVER

NOTES TO FINANCIAL STATEMENTS

NOTE IV: DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

1. Deposits

At year-end, the city's carrying amount of deposits was \$4,746,654 and the bank balance was \$6,618,533. The Federal Deposit Insurance Corporation (FDIC) insures the city's deposit and investments up to \$100,000. All deposits and bank and investment pools not covered by FDIC are covered under the State of Washington Public Deposit Protection Commission Act of 1969. Total public deposits may not exceed one and one-half times its net worth or 30% of the total public funds on deposit statewide in each qualified public depository. If public deposits exceed either of these limitations, it must collateralize the excess at 100%. These deposits are classified under risk Category 1.

2. Investments

The City maintains an Internal Investment Pool. The Pool has an average maturity of approximately nine months. Some funds are invested for the benefit of the respective fund. Remaining monies are aggregated in a residual account, and invested in the pool for the benefit of all funds. As required by state law, all investments of the city funds are obligations of the U.S. Government, U.S. agency issues, the State Treasurer's Investment Pool, or the Clark County Investment Pool. As of December 31, 2002, the fair value of the City's investment portfolio was \$191,996,333, of which \$5,049,279 was invested in money market accounts, \$5,019,192 was invested on behalf of the Firemen's Pension Fund, and \$181,924,345 was invested in the City's Internal Investment Pool for the benefit of all funds. Investments of pension/non-expendable trust funds are not subject to the preceding limitations under state law.

Investments are categorized into these three categories of credit risk:

- (1) Insured or registered, or securities held by the government or its agent in the government's name.
- (2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the government's name.
- (3) Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the government's name.

All investments were found to be Category 1 type investments, with the exception of the investments held in the Washington State Local Government Investment Pool and the Clark County Investment Pool, which are not categorized.

		Investment Portfolio	
		Category 1	
		(In Thousands)	
		Carrying Amount	Fair Value
Corporate Bonds	\$	2,948	\$ 3,134
U.S. Government Agencies		122,767	124,790
Total Category 1 Investments		125,715	127,924
<i>Investments not subject to categorization:</i>			
Washington State Investment Pool		56,367	56,367
Clark County Investment Pool		2,656	2,656
Total Investments *	\$	184,738	\$ 186,947

* Fair value of pooled investments does not include adjustments made for accrued interest distributed to pooled participants.

During 2002 the city was in compliance with all statutes pertaining to the investment of city moneys.

CITY OF VANCOUVER

NOTES TO FINANCIAL STATEMENTS

A reconciliation of cash, cash equivalents (including pooled investments) and investments as shown in the government-wide and fund financial statements is as follows:

Notes

Investments	\$ 186,947,053
Deposits	4,746,654
Deposits w/Fiscal Agent, Escrow, Trust	421,504
Accrued Interest	<u>1,446,684</u>
Total	<u>\$ 193,561,895</u>

Financial Statements

Cash and cash equivalents	\$ 181,544,570
Cash and cash equivalents – Component Units	865,305
Restricted Cash	2,426,638
Restricted Cash – Component Units	6,375
Cash with fiscal agent/trustee	34,043
Cash with fiscal agent/trustee – Component units	387,461
Fiduciary Cash	3,278,311
Fiduciary Investments	<u>5,019,192</u>
Total	<u>\$ 193,561,895</u>

B. RECEIVABLES

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but have not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Property taxes receivable -not yet due (general fund)	\$ 30,173,775	\$ 0
Delinquent property taxes receivable (general fund)	1,347,396	0
Special assessments not yet due (debt service fund)	124,300	0
Developer payments not yet spent	<u>0</u>	<u>21,580</u>
Total deferred/unearned revenue for governmental funds	<u>\$ 31,645,471</u>	<u>\$ 21,580</u>

CITY OF VANCOUVER

NOTES TO FINANCIAL STATEMENTS

C. CAPITAL ASSETS

A summary of capital asset activity for the year ended December 31, 2002 was as follows:

	Beginning Balance 01/01/02	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 31,943,906	\$ 5,530,881	\$ 0	\$ 37,474,787
Construction in progress	29,120,424	13,185,898	14,120,321	28,186,001
Total capital assets, not being depreciated	61,064,330	18,716,779	14,120,321	65,660,788
Capital assets, being depreciated/depleted:				
Cemetery land	363,935	420,412	0	784,347
Buildings	32,369,014	3,838,141	0	36,207,155
Machinery and equipment	25,313,291	6,397,005	455,713	31,254,583
Improvements other than buildings	78,909,176	7,731,259	0	86,640,435
Total capital assets being depreciated	136,955,416	18,386,817	455,713	154,886,520
Less accumulated depreciation for:				
Cemetery Land	0	428,027	0	428,027
Buildings	9,000,755	1,088,828	0	10,089,583
Machinery and equipment	12,649,566	3,275,618	424,573	15,500,611
Improvements other than buildings	1,858,576	2,337,338	0	4,195,914
Total accumulated depreciation	23,508,897	6,701,784	424,573	30,214,135
Total capital assets, being depreciated, net	113,446,519	11,685,033	31,140	124,672,385
Governmental activities capital assets, net	\$ 174,510,849	\$ 30,401,812	\$ 14,151,461	\$ 190,333,173

CITY OF VANCOUVER

NOTES TO FINANCIAL STATEMENTS

	Restated Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 6,334,320	0	0	\$ 6,334,320
Construction in progress	3,131,165	\$ 18,531,558	\$ 2,015,827	19,646,896
Total capital assets, not being depreciated	9,465,485	18,531,558	2,015,827	25,981,216
Capital assets, being depreciated:				
Buildings and system	22,504,016	16,260	0	22,520,276
Improvements other than buildings	400,626,371	6,669,803	0	407,296,174
Machinery and equipment	23,527,269	1,765,946	0	25,293,215
Total capital assets, being depreciated	446,657,656	8,452,009	0	455,109,665
Less accumulated depreciation for:				
Buildings and system	5,185,125	665,733	0	5,850,858
Improvements other than buildings	92,882,283	9,323,583	0	102,205,866
Machinery and equipment	8,401,508	1,833,472	0	10,234,980
Total accumulated depreciation	106,468,916	11,822,788	0	118,291,704
Total capital assets, being depreciated, net	340,188,740	(3,370,779)	0	336,817,961
Business-type activities capital assets, net	349,654,225	\$ 15,160,779	\$ 2,015,827	\$ 362,799,177

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 734,060
Security of persons and property	805,463
Physical environment	428,027
Transportation, including depreciation of general infrastructure assets	2,161,906
Economic environment	371,530
Culture and recreation	1,045,987
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	1,582,838
Total depreciation expense—governmental activities	<u>\$ 7,129,811</u>

Business-type activities:

Water/Sewer	\$ 11,200,398
Airpark	168,703
Building Inspection	137,161
Sanitation	5,137
Parking	279,845
Tennis Center	31,545
Total depreciation expense—business-type activities	<u>\$ 11,822,789</u>

CITY OF VANCOUVER

NOTES TO FINANCIAL STATEMENTS

D. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Loans between funds are classified as interfund loans receivable or payable or as advances to and from other funds on the statement of net assets. Within the city, one fund may borrow from another when specifically authorized by council resolution. Due to other funds and due from other funds result from goods issued, work performed or services rendered to or for the benefit of another fund of the same government. The following table displays interfund loan activity during the year 2002:

	Interfund <u>Loans Receivable</u>	Interfund <u>Loans Payable</u>	Due from <u>Other Funds</u>	Due to <u>Other Funds</u>
<i>Governmental Activities</i>				
General Fund	\$ 308,185	0	\$ 192,599	\$ 102,010
Street Fund	0	0	0	141,986
Consolidated Fire	0	0	0	0
Transportation Capital	0	0	139,444	0
Nonmajor governmental funds	0	\$ 308,185	10,610	432,257
Internal Service funds	0	0	21,169	5,396
Subtotal governmental activities	<u>308,185</u>	<u>308,185</u>	<u>363,822</u>	<u>681,649</u>
<i>Business type Activities</i>				
Water-Sewer	0	0	268,770	0
Parking	0	0	0	14,171
Nonmajor enterprise funds	0	0	94,359	31,131
Subtotal business activities	<u>0</u>	<u>0</u>	<u>363,129</u>	<u>45,302</u>
Total government wide	<u>\$ 308,185</u>	<u>\$ 308,185</u>	<u>\$ 726,951</u>	<u>\$ 726,951</u>

Interfund transfers are the flow of assets without a reciprocal return of assets, goods or services. These are transfers to support other funds without a requirement for repayment. The interfund transfer activity for the year is as follows:

<u>Transfers Out</u>						
Transfer In:	General fund	Consolidated Fire	Non-Major Governmental Funds	Water /Sewer	Non-Major Enterprise Funds	Total
General Fund	0	0	\$ 40,780	\$ 57,368	\$ 264,000	\$ 362,148
Consolidated Fire	\$ 12,940,320	0	0	0	0	12,940,320
Street Fund	5,639,215	0	0	0	0	5,639,215
Transportation Capital	623,500	0	9,615,639	0	0	10,239,139
Non-Major Governmental Funds	4,526,755	\$ 9,334	2,610,493	1,750	0	7,148,332
Water Sewer	0	0	253,440	0	0	253,440
Off-Street Parking	619,000	0	0	0	0	619,000
Non-Major Enterprise Funds	192,742	0	0	0	0	192,742
Total	<u>\$ 24,541,532</u>	<u>\$ 9,334</u>	<u>\$ 12,520,352</u>	<u>\$ 59,118</u>	<u>\$ 264,000</u>	<u>\$ 37,394,336</u>

There were no significant transfers made during 2002 that do not occur on a routine basis or are inconsistent with the activities of the fund making the transfer.

CITY OF VANCOUVER

NOTES TO FINANCIAL STATEMENTS

E. SEGMENT INFORMATION

The city maintains eight enterprise funds, which provide water-sewer, airpark, building inspection, sanitary (solid waste), parking, fire shop, tennis/racquetball, and city property development services. The only required fund to display segment information is the sanitary fund which contracts for garbage services and receives a franchise fee from the contractor. Segment information for the year-end is provided below:

	<u>Sanitary</u>
<i>Condensed Statement of net assets</i>	
Assets	
Current assets	\$ 4,741,718
Capital assets	101,880
Other assets	<u>446,985</u>
Total Assets	<u>5,290,583</u>
Liabilities	
Current	424,150
Long-term	<u>959,328</u>
Total liabilities	<u>1,383,478</u>
Net Assets	
Invested in capital assets, net of related debt	101,880
Unrestricted	<u>3,805,225</u>
Total net assets	<u>\$ 3,907,105</u>
<i>Condensed Statement of revenues, expenses and changes in net assets</i>	
Operating revenues (pledged against bonds)	\$ 2,718,687
Depreciation expense	(5,137)
Other operating expenses	<u>(2,227,711)</u>
Operating income	<u>485,839</u>
Nonoperating revenues (expenses)	
Interest earnings	167,329
Interest and fiscal charges	(95,172)
Transfers out	<u>(264,000)</u>
Change in net assets	293,996
Beginning net assets	<u>3,613,109</u>
Ending net assets	<u>\$ 3,907,105</u>
<i>Condensed statement of cash flows</i>	
Net cash provided by operating activities	\$ 606,181
Net cash used for noncapital financing activities	(616,496)
Net cash used for capital and related financing activities	(62,466)
Net cash provided b investing activities	<u>3,923,762</u>
Net increase	3,850,981
Beginning cash and cash equivalents	<u>1,301,689</u>
Ending cash and cash equivalents	<u>\$ 5,152,670</u>

CITY OF VANCOUVER**NOTES TO FINANCIAL STATEMENTS**

F. RESTRICTED ASSETS

The balances of the restricted asset accounts in the enterprise funds are as follows:

	Amount
Revenue bond debt service account - Water Sewer	\$ 1,873,981
Bond construction account - Off-Street Parking	116,619
Revenue bond debt service account -Sanitation	436,038
	<u>\$ 2,426,638</u>

G. LEASE AGREEMENTS**OPERATING LEASES**

The City is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations, and therefore the results of the lease agreements are not reflected in City's statement of net assets. For the year ended December 31, 2002, the costs for such leases were \$225,674 and \$226,137 for governmental and business-type activities, respectively.

The following is a schedule of minimum future rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2002:

	Governmental Activities	Business-type Activities
2003	\$ 764,875	\$ 487,725
2004	625,021	484,725
2005	625,021	483,225
2006	625,021	481,125
2007	128,478	324,351
2008-2012	0	973,104
2013-2017	0	840,000
2018-2020	0	504,000
Total Minimum Lease payments required	<u>\$ 2,768,416</u>	<u>\$ 4,578,255</u>

CAPITAL LEASES

The city has entered into a lease agreement as lessee for financing the acquisition of land for a hotel/convention center. Terms of the lease include a balloon payment of \$208,000 in April of 2008. The implied interest rate of the lease is 5.53%. The city also has financed the acquisition of Airpark hangars. The leased assets and related obligations are accounted for in the statement of net assets. The net capital lease amounts shown below reflect those continuing to be financed through capital leases. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. The minimum capital lease payments reflect the remaining capital obligations on these assets.

CITY OF VANCOUVER

NOTES TO FINANCIAL STATEMENTS

Net Capital Lease Assets	Governmental Activities	Business-type Activities
Land	\$ 498,750	0
Buildings	0	\$ 323,184
Less Accumulated Depreciation	0	(62,617)
	<u>\$ 498,750</u>	<u>\$ 260,567</u>

Minimum Capital Lease Payments	Governmental Activities	Business-type Activities
2003	\$ 54,489	\$ 36,564
2004	56,123	0
2005	57,808	0
2006	59,542	0
2007	61,328	0
2008	224,546	0
<i>Total Minimum Lease Payments</i>	<u>513,836</u>	<u>36,564</u>
Less Interest	(95,040)	(1,158)
Present Value of Minimum Lease Payments	<u>\$ 418,796</u>	<u>\$ 35,406</u>

H. LONG-TERM DEBT

GENERAL OBLIGATION BONDS

The city issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. The original amount of general obligation bonds issued in prior years was \$78,785,000. During the year, general obligation bonds totaling \$39,365,000 were issued to refund 1993, 1996/97, 1999 and 2000 general obligation bonds and for general fund capital projects.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds generally are issued as 20-year serial bonds with equal amounts of principal maturing each year. General obligation bonds are either created by 3/5 majority vote of the people and, therefore, financed by a special tax levy; or created by ordinance, adopted by the City Council, and normally financed from general revenues (councilmanic bonds). General obligation bonds currently outstanding (in thousands) are as follows:

<u>Name of Issuance</u>	<u>Purpose</u>	<u>Issuance Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Debt Outstanding</u>
1993 Limited Bond	Business Type & Governmental Activities	03/01/1993	08/01/2011	4%-5.65%	\$ 200
1996/1997 Limited Tax	Business Type & Governmental Activities	12/01/1996	12/01/2016	5%-5.6%	795
1998 LTGO Bond	Governmental Activities	03/01/1998	12/01/2018	4.3%-5.125%	9,160
1998 LTGO Bond	Business Type & Governmental Activities	09/01/1998	12/01/2018	3.45%-4.85%	11,895
1999 LTGO Bond	Governmental Activities	11/01/1999	12/01/2019	3.85% - 6%	2,780
2000 LTGO Bond	Business Type & Governmental Activities	08/23/2000	12/01/2025	5% to 5.75%	6,465
2001 LTGO Bond	Governmental Activities & Refunding	08/21/2001	09/01/2015	4.25% to 5%	8,180
2002 LTGO Bond	Governmental Activities & Refunding	10/23/2002	12/01/2025	2% to 5.25%	39,365
<i>Total General Obligation Bonds</i>					<u>\$ 78,840</u>

\$3.52 million is available in the Debt Service Funds to service the general obligation bonds. Annual debt service requirements to maturity for general obligation bonds (in thousands) are as follows:

CITY OF VANCOUVER

NOTES TO FINANCIAL STATEMENTS

	Governmental Activities			Business Type Activities		
	Principal	Interest	Total Requirements	Principal	Interest	Total Requirements
2003	\$ 2,492	\$ 3,264	\$ 5,756	\$ 528	\$ 515	\$ 1,043
2004	2,615	2,668	5,283	555	979	1,534
2005	2,764	2,556	5,320	536	954	1,490
2006	2,917	2,437	5,354	553	928	1,481
2007	2,972	2,814	5,786	658	902	1,560
2008-2012	18,436	9,204	27,640	4,064	4,048	8,112
2013-2017	20,931	4,126	25,057	5,159	2,957	8,116
2018-2022	5,522	309	5,831	4,778	1,536	6,314
2023-2025	0	0	0	3,360	315	3,675
	<u>\$ 58,649</u>	<u>\$ 27,378</u>	<u>\$ 86,027</u>	<u>\$ 20,191</u>	<u>\$ 13,134</u>	<u>\$ 33,325</u>

The city has also received government and bank loans to provide for construction of capital projects. Government and bank loans outstanding (in thousands) at year-end are as follows:

Name of Issuance	Purpose	Issuance Date	Maturity Date	Interest Rate	Debt Outstanding
1991 PWTF Water Station #4	Business type activities - water/sewer	07/01/1991	07/01/2011	1%	\$ 710
Comm. Econ. Revital. Board	Business type activities - water/sewer	12/15/1989	03/29/2009	6.10%	300
Comm. Econ. Revital. Board	Governmental & Business type activities - Water sewer	12/11/1984	12/31/2004	7%	204
Total Government Loans					<u>\$ 1,214</u>

Government and bank loan debt service requirements to maturity (in thousands) are as follows:

	Governmental Activities			Business Type Activities		
	Principal	Interest	Total Requirements	Principal	Interest	Total Requirements
2003	\$ 99	\$ 25	\$ 124	\$ 114	\$ 14	\$ 128
2004	106	19	125	116	11	127
2005	33	12	45	85	8	93
2006	36	9	45	86	7	93
2007	38	7	45	86	5	91
2008-2011	83	8	91	332	10	342
	<u>\$ 395</u>	<u>\$ 80</u>	<u>\$ 475</u>	<u>\$ 819</u>	<u>\$ 55</u>	<u>\$ 874</u>

SPECIAL ASSESSMENT DEBT

The government also issues special assessment debt to provide funds for the construction of water and sewer utilities in residential areas without existing infrastructure. Special assessment bonds are created by ordinance, adopted by council, and financed by assessment on property owners. A separate guaranty fund is available to cover most outstanding delinquencies at the end of the assessment period. The city's obligation doesn't extend beyond the guaranty fund assets. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the government must provide resources to cover the deficiency until other resources, for example, foreclosure proceeds, are received. The City has a Local Improvement District Guaranty Fund to finance any uncollectible special assessment debt. As of December 31, 2002, \$5,957 of special assessment receivables were delinquent. Special assessment debt with a governmental commitment reported at year end is (in thousands) as follows:

CITY OF VANCOUVER

NOTES TO FINANCIAL STATEMENTS

<u>Name of Issuance</u>	<u>Issuance Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Debt Outstanding</u>
1988 Assessment Bond	12/15/1988	12/15/2010	6.5%-8%	\$ 95
Assessment Notes Receivable	Various	Various	6.625%-9.86%	73
<i>Total Assessment Debt</i>				<u>\$ 168</u>

Special assessment bonds are serial bonds but are called "yearly based on assessments received." Annual debt service requirements to maturity for special assessment bonds are (in thousands) as follows:

<u>Governmental Activities</u>			
	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2003	\$ 45	\$ 13	\$ 58
2004	32	9	41
2005	30	7	37
2006	35	4	39
2007	10	2	12
2008-2009	15	2	17
	<u>\$ 167</u>	<u>\$ 37</u>	<u>\$ 204</u>

\$43,836 is available in the Local Improvement District Debt Service Fund and \$274,214 is available in the local improvement district guaranty fund to service the local improvement district bonds.

REVENUE BONDS

The city also issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds are created by ordinance, adopted by the City Council, and financed from Enterprise Fund revenues. The original amount of revenue bonds issued in prior years was \$212,210,000. During the year, 2002 Water Sewer Revenue Refunding bonds were issued in the amount of \$11,310,000 to refund a portion of the 1993 Water Sewer Revenue Bonds. The water sewer revenue bonds are issued to finance capital projects. The Solid Waste revenue bond was issued for operational purposes. Revenue bonds outstanding at year-end are (in thousands) as follows:

<u>Name of Issuance</u>	<u>Issuance Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Debt Outstanding</u>
1993 Water Sewer	07/01/1993	06/01/2013	2.65%-5.5%	\$ 16,885
1995 Water Sewer	08/01/1995	08/01/2019	3.8%-6%	4,330
1997 Water Sewer	12/01/1997	06/01/2018	4.05%-5.25%	56,595
1997 Solid Waste	11/01/1997	06/01/2006	5.7%-6.05%	1,245
1998 Water Sewer	12/01/1998	12/01/2016	3.7%-4.75%	27,085
1999 Water Sewer	11/01/1999	12/31/2020	5.125%-6%	32,605
2002 Water Sewer Refunding	12/01/2002	06/01/2008	5.125%-6%	11,310
<i>Total Revenue Bonds</i>				<u>\$ 150,055</u>

CITY OF VANCOUVER

NOTES TO FINANCIAL STATEMENTS

Revenue bond debt service requirements to maturity are (in thousands) as follows:

	Principal	Interest	Total Requirements
2003	\$ 7,140	\$ 7,442	\$ 14,582
2004	7,525	7,084	14,609
2004	7,910	6,705	14,615
2005	8,305	6,309	14,614
2006	8,320	5,942	14,262
2007-2011	48,460	23,135	71,595
2012-2016	47,500	10,188	57,688
2017-2019	14,895	11,119	26,014
	<u>\$ 150,055</u>	<u>\$ 77,924</u>	<u>\$ 227,979</u>

\$2,310,019 is available in the reserve and redemption accounts of the Water-Sewer and Sanitary Enterprise funds to service revenue debt.

Water-Sewer Revenue bond covenants require that revenue available for debt service (defined as operating and non-operating revenues less expenses requiring payment to outside entities) exceed the annual debt payment of both principal and interest by a ratio of 1.3 to 1. The city remains in compliance with that provision with a current ratio of 1.63 to 1 coverage. There are a number of limitations and restrictions contained in the various bond indentures. The city is in compliance with all significant limitations and restrictions.

COMPENSATED ABSENCES

Accumulated amounts of vacation leave are accrued as an expenditure when incurred in Proprietary Funds, but only the current portion of the yearly accrual which was left unpaid at the end of the fiscal year is shown as a liability and shown as an expenditure in governmental funds. The remainder of the liability is reported in the governmental activities column of the statement of net assets.

At year-end 2002, the recorded liability for sick and vacation time amounted to \$7,007,047 with \$5,635,961 in governmental funds and \$1,371,086 in proprietary funds. City employees receive vacation and sick leave time at monthly rates established by city ordinance or union agreement. Vacation is accrued monthly by employees at annual rates ranging from 18 to 35 days depending upon tenure and union agreements. Accumulated vacation carryover between years is limited to twice an employee's current year accrual. Sick leave accruals vary, depending upon union agreement, between 10 and 12.25 hours per month. Provisions in all contracts provide for a pay off of sick leave depending on tenure for employees hired prior to January 1, 1980, for the joint labor coalition, prior to January 1, 1981, for the law and justice, and prior to January 1, 1983, for the firefighters union. An employee retiring from the city on account of age shall be paid a sum equal to ten percent of his accrued and unused short-term disability leave if he has more than ten years of service; 25 percent if he has more than 15 years of service; or 50 percent if he has more than 20 years of service. For law officers and firefighters, provisions also provide for one-half of the above percentages if the employee leaves the city in good standing for other than retirement.

ADVANCE AND CURRENT REFUNDINGS

In prior years, the City has defeased various bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U S Government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been removed as a liability from the governmental activities column of the statement of net assets. The following is a schedule of outstanding bonds (in thousands) that are either refunded or defeased.

CITY OF VANCOUVER

NOTES TO FINANCIAL STATEMENTS

Name of Issue	Year Issue Defeased	Cash on Deposit With Trustee	Investment With Trustee	Bonds Payable	Fund Balance (Deficit)
<i>General Obligation Bonds</i>					
93, 96/7, 95 & 00 LTGO	2002	779	39,986	(37,045)	3,720
<i>Water Sewer Revenue Bonds</i>					
1995 Revenue	1998	47	21,601	(24,610)	(2,962)
1993 Revenue	2002	34	11,811	(11,370)	475

Advanced refunding

On October 23, 2002, the government issued \$39,365,000 of general obligation and refunding bonds to provide funds for capital acquisitions and to provide resources to purchase U.S. Government State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$37,045,000 of general obligation bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net assets. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. This advance refunding was undertaken to reduce total debt service payments over the next 6 years by \$2,192,185 and resulted in an economic gain of \$1,696,464.

Additionally, on December 1, 2002, the government issued \$11,310,000 of water sewer revenue bonds to provide resources to purchase U.S. Government State and Local Government Series Securities that were placed in an irrevocable trust for the purpose of generating resources for future debt service payments of \$11,370,000 of 1993 Water Sewer Revenue bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net assets. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. This advance refunding was undertaken to reduce total debt service payments over the next 6 years by \$484,282 and resulted in an economic gain of \$449,942.

CITY OF VANCOUVER

NOTES TO FINANCIAL STATEMENTS

CHANGES IN LONG-TERM LIABILITIES (IN THOUSANDS)

The following is a summary of long-term debt changes of the city for the year:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
Bonds payable:					
General obligation bonds	\$ 59,322	\$ 23,804	\$ 24,477	\$ 58,649	\$ 2,492
Less deferred amounts					
For issuance premiums (discounts)	62	2,381	24	2,419	0
On refunding	(123)	(1,999)	(51)	(2,071)	0
Total bonds payable	59,261	24,186	24,450	58,997	2,492
Special assessment debt with governmental commitment	192	0	24	168	45
Capital leases	448	0	29	419	22
Government loans	599	0	204	395	99
Net pension obligation	96	0	96	0	0
Claims and judgements	1,251	789	123	1,917	0
Compensated absences	5,728	12,331	12,191	5,868	294
Governmental activity long term liabilities	<u>\$ 67,575</u>	<u>\$ 37,306</u>	<u>\$ 37,117</u>	<u>\$ 67,764</u>	<u>\$ 2,952</u>
Business-type activities					
Bonds payable					
General obligation bonds	\$ 21,254	\$ 15,561	\$ 16,624	\$ 20,191	\$ 528
Revenue bonds	156,905	11,310	18,160	150,055	7,140
Less deferred amounts					
For issuance premiums (discounts)	(122)	1,830	(33)	1,741	0
On refunding	(1,435)	(2,342)	(347)	(3,430)	0
Total bonds payable	176,602	26,359	34,404	168,557	7,668
Government loans	931	0	112	819	114
Compensated absences	992	3,055	2,908	1,139	57
Capital leases	103	0	67	36	36
Business-type activity long term liabilities	<u>\$ 178,628</u>	<u>\$ 29,414</u>	<u>\$ 37,491</u>	<u>\$ 170,551</u>	<u>\$ 7,875</u>

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year-end \$232,252 of internal service funds compensated absences are included in the above amounts. Also, for the governmental activities, claims and judgements and compensated absences are generally liquidated by operating funds, such as the general fund, consolidated fire and the street funds.

The city's legal limit of indebtedness is 1 ½% of assessed property value without a vote of the taxpayers and 2 ½% with a vote of the taxpayers. At December 31, 2002, the remaining nonvoted and voted remaining capacity was \$86,382,842 and \$97,011,473.

CITY OF VANCOUVER

NOTES TO FINANCIAL STATEMENTS

NOTE V. OTHER DISCLOSURES

A. PRIOR PERIOD ADJUSTMENTS

Water-Sewer Fund

In prior years the water-sewer fund transferred \$1,746,560 for its share of the business system implementation. This amount should have been capitalized, not expensed. A prior period adjustment of \$1,746,560 was made in 2002 to correct this error.

B. RELATED PARTY TRANSACTIONS

On September 1, 1987 the City of Vancouver entered into a lease agreement with the Vancouver Area Development Authority (VADA) relating to the lease of Officers Row to VADA. In August of 2001, the city amended the lease to the Authority. This lease is an operating lease which grants early termination rights. The cost of the Officer's Row Assets is \$15,603,526. Accumulated depreciation to date is \$3,887,658, which results in a book value of \$11,715,868. For 2002, VADA's requirement under the lease was \$514,800. At 12/31/02, \$158,000 of this obligation is still payable to the City.

C. IMPACT FEE CREDITS

In 1995, the City of Vancouver adopted an impact fee ordinance to ensure that adequate facilities are available to serve new growth and development. An impact fee is charged at the issuance of a building permit. In addition, the developer may be entitled to a non-refundable "credit" against the applicable impact fee component for the fair market value of appropriate dedications of land, improvement or new construction of system improvements provided by the developer. In the event that the amount of the "credit" is calculated to be greater than the amount of the impact fee due, the developer may apply the excess "credit" toward impact fees assessed on other developments within the same service area. As of December 31, 2002, the amount of credits that may be applied against future impact fees is \$6,821,488.

D. SUBSEQUENT EVENTS

During May 2003, the city issued \$18,520,000 in limited tax general obligation bonds to provide monies for constructing and equipping a new community center known as the Firstenburg Community Center, remodel the Marshall Center and to pay costs of issuing the bond. The bonds bear interest rates from 1.4% to 4.5% and will be redeemed over the next 26 years with general tax revenues.

The City of Vancouver, Clark County, the Vancouver Public Facilities District and the Vancouver Downtown Redevelopment Authority are collaborating on the development and financing of a conference center and hotel in downtown Vancouver. The project will be funded with proceeds from the sale of tax exempt bonds issued by the Vancouver Downtown Redevelopment Authority. The bonds will be secured by project revenues, together with a credit from the State of Washington equal to 0.033% of 1% of the sales and use tax collected within the City and the County and a dedication of 50% of the lodging taxes collected within the City. Part of the security structure of the bonds used to finance the project calls for the city to enter into an agreement with the bond trustee on behalf of bond owners guarantying a minimum amount of tax revenues such that in the event that tax revenues collected in any year fall below the minimum guarantee the city would be obligated to pay the difference to the bond trustee. The level of the minimum guarantee is set at a level approximately 15% below the City's forecast for revenues.

CITY OF VANCOUVER

NOTES TO FINANCIAL STATEMENTS

E. JOINT VENTURES

The City is involved in a joint operation with other governmental entities in the establishment and operation of the Clark Regional Emergency Services Agency. Control of the entity is shared equitably by the controlling organizations. For reporting purposes, this entity is shown as a governmental activities joint venture. The city's share of ownership is reported as a capital asset in the government-wide statement of net assets. Control in this entity, by participating governmental entities, is by board representation.

Clark Regional Emergency Services Agency

Clark Regional Emergency Services Agency was created under the Interlocal Cooperation Act (RCW 39.4) by agreement between the city and other governmental units and political districts. Its purpose is to provide a consolidated public safety communications service to participating cities, political districts, and Clark County. The city has a 40% interest in the equity and operations of the agency. The city's share of 2002 operations was \$4,582 for a total equity interest of \$392,274 at the end of 2002. Current liabilities are comprised of amounts owed to vendors, other governments, and accrued employee leave liabilities. The entity's long-term debt consists mainly of deferred compensation and accrued liabilities. The entity's long-term debt is unsecured. Clark County maintains the accounting records for Clark Regional Emergency Services Agency. Detailed financial statements for this entity can be obtained from Clark Regional Emergency Services Agency at 710 W 13th St, Vancouver, WA 98660-2810.

F. CITY SELF-INSURANCE FUND-RISK MANAGEMENT

During 1977, the city became a qualified self-insurer for workers' compensation as an alternative to the state program. In 1978, all local governments within Washington State were brought under the state unemployment tax coverage, which also allowed qualified cities to become self-insured. The city qualified and became self-insured in 1978. The city established a Self-Insurance Internal Service Fund to account for and finance its insured and uninsured risks of loss. The fund addresses claims in four areas of risk that include general liability, worker's compensation, unemployment, and property. Commercial insurance is purchased to handle risk of loss. In the past three years, none of the settlements exceeded the city's purchased insurance coverage. Information on each area is as follows:

General Liability

The Self-Insurance costs for liability claims in 2002 totaled \$370,564. Historically, there have been approximately 100 claims filed against the city for any given year. There were 141 claims filed for 2002. The fund pays the majority of claims involving general liability but has various liability coverage's through specific policies. Currently our specific policies include airport liability at a cost of \$5,088. Coverage is at \$5,000,000 for Liability and \$5,000,000 for hangar keepers legal. In addition, the city purchases excess liability insurance for all city operations including auto, for a limit of \$10,000,000 at a cost of \$286,784. The excess policy provides \$1,000,000 Self Insured Retention. The city also purchases Liability on specific Autos' up to \$1,000,000 at a cost of \$35,114.

Worker's Compensation

The city is self-insured through the fund for worker's compensation; however, an excess coverage policy is carried at a premium cost of \$52,248. The policy has a \$400,000/\$750,000 deductible. The costs of claims for workers' compensation totaled \$419,328 in 2002. This amount represents payments made for prior years as well as 2002. Approximately 125 claims were processed in 2002.

Property

The city carries fire damage insurance (Buildings and Business Personal Property), fleet physical damage coverage, boiler and machinery, and flood insurance coverage at a cost of \$385,984. Policy coverage for fire damage is up to \$249,657,632 with a \$50,000 deductible. This represents replacement cost for all city buildings and contents. Fleet physical damage coverage is maintained for catastrophic event coverage up to a \$12,874,001. The deductible for Fleet Physical Damage is \$25,000. The Boiler and Machinery coverage is maintained at a limit of \$100,000,000 with a \$5,000 deductible. 125 property claims were reported for 2002. Property claim costs during 2002 totaled \$157,410. This amount represents payments made for prior years as well as 2002.

Contributions and Reserves

City fund contributions to the Self-Insurance Fund are determined using information from the contributing funds past claims experience and loss exposures. As of December 31, 2002, the retained earnings totaled \$1,215,386. The claims liability reported in the fund totaled \$1,917,314 for the period ending December 31, 2002. The amount reported is as follows:

CITY OF VANCOUVER

NOTES TO FINANCIAL STATEMENTS

Liability Reserves

Open Claims	\$ 380,150
Incurred But Not Reported	676,193
Total Liability Reserves	<u>1,056,343</u>

Property Reserves

Open Claims	139,902
Incurred But Not Reported	77,847
Total Property Reserves	<u>217,749</u>

Worker's Compensation Reserves

Open Claims	362,241
Incurred But Not Reported	280,981
Total Worker's Compensation Reserves	<u>643,222</u>

Total Liability Reserves **\$ 1,917,314**

The claims liability, as reported in the fund, is based on the requirements of GASB Statement 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and that the amount of the loss can be reasonably estimated. Changes in the fund's claims liability amount in 2001 and 2002 are as follows:

Year	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year End
2002	1,251,262	789,171	123,119	1,917,314
2001	1,530,932	398,313	677,983	1,251,262

G. PROPERTY TAXES

A city is permitted by law to levy up to \$3.60 per \$1,000 of assessed valuation for general governmental services and 22.5 cents per \$1,000 for local Fire Pension Funds. However, a separate library district was formed in 1981 for the tax year 1982, thus reducing the cities levy lid to the difference between \$3.825 per \$1,000 of assessed valuation and the library levy which cannot exceed 50 cents per \$1,000 of assessed value. Therefore, the maximum the city levy could be is \$3.325 per \$1,000. This amount may be reduced for any of the following reasons:

- The Washington State Constitution limits the total regular property taxes to one percent of assessed valuation or \$10 per \$1,000 of value. If the taxes of all districts exceed this amount, each is proportionately reduced until total is at or below the one percent limit.
- Washington State Law in RCW 84.55.010 limits the growth of regular property taxes to six percent per year, after adjustments for new construction. If the assessed valuation increases by more than six percent due to revaluation, the levy rate will be decreased.
- The city may voluntarily levy taxes below the legal limit.

Special levies approved by the voters are not subject to the above limitations.

For 2002, the city's regular tax levy was \$3.32 per \$1,000 on a total taxable 2001 assessed valuation of \$9,144,798,220 for a total regular levy of \$30,522,088.

Outstanding property taxes at December 31, 2002 amount to \$1,347,396, not including the accrual of the 2003 tax levy amount of \$30,173,775. The city does not establish an allowance for doubtful accounts since state law has authorized the foreclosure and sale of property to satisfy delinquent property taxes.

All property taxes are received into the general fund. Transfers are then made into the general obligation debt service funds as required by the bond ordinances. Any shortages due to delinquent property taxes are absorbed by the general fund.

H. EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS

The City of Vancouver's employees are covered in one of the following pension plans: Public Employees Retirement System (PERS), Law Enforcement Officer's and Fire Fighters (LEOFF) Retirement System, City of Vancouver Police Pension Fund (Police) and City of Vancouver Firefighter Pension Fund (Fire). All of these plans are defined benefit plans and reported in accordance with all current pension pronouncements. The Police and Fire Pension Funds are considered part of the City's reporting entity and are reported as pension trust funds. These two plans do not issue a stand-alone financial report. The PERS and LEOFF Plans are administered by the State of Washington Department of Retirement Systems, under cost-sharing multiple-employer public employee retirement systems. The Washington State Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual

CITY OF VANCOUVER

NOTES TO FINANCIAL STATEMENTS

financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained from the Department of Retirement Systems, Communications Unit, PO Box 48380, Olympia, WA 98504-8380. The following disclosures are made pursuant to GASB Statement 27, Accounting for Pensions by State and Local Government Employers.

RETIREMENT PLAN FINANCIAL AND ACTUARIAL DATA – 12/31/02

	PERS			LEOFF		Police	Fire
	Plan 1	Plan 2	Plan 3	Plan 1	Plan 2		
Current Membership:							
Retirees/Beneficiaries Currently							
Receiving Benefits	a	a	a	a	a	32	66
Current Active Members	a	a	a	a	a	2	10
Contribution Rates							
City	1.32% ^b	1.32% ^b	1.32% ^b	.22% ^b	2.86% ^b	N/A	N/A
Employee	6.00%	0.65%	c	0.00%	4.39%	N/A	N/A
State of Washington	N/A	N/A	N/A	N/A	1.75%	N/A	N/A
State Fire Insurance/Property Tax	N/A	N/A	N/A	N/A	N/A	N/A	See Note
City Required Contribution	32,262	431,537	2,762	2,202	634,370	379,003	419,508
City Actual Contribution	32,262	431,537	2,762	2,202	634,370	290,192	575,511
Actuarial Valuation Date	a	a	a	a	a	01/01/2003	01/01/2003
Actuarial Cost Method	a	a	a	a	a	Entry Age	Entry Age
Amortization Method	a	a	a	a	a	Level Percent	Level Percent
Unfunded Actuarial Liability	a	a	a	a	a	Pay as you go	Fully Funded
Asset Valuation Method	a	a	a	a	a	Fair Value	Fair Value
Actuarial Assumptions							
Investment Rate of Return	a	a	a	a	a	7%	7%
Projected Salary Increases	a	a	a	a	a	5%	5%
Inflation Rate (CPI)	a	a	a	a	a	4%	4%

a) See Department of Retirement Systems Annual Financial Report.

b) The rates include the employer administrative expense fee currently set at 0.22%.

c) Variable from 5% minimum to 15% maximum based on rate selected by the PERS 3 member.

PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS) PLANS 1, 2 AND 3

Plan Description:

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals and Superior Courts (other than judges in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees (not in national higher education retirement system); judges of district and municipal court; and employees of local government. Participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and be either, February 28, 2002 for state and higher education employees or August 31, 2002 for local government employees are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the option of choosing membership in either PERS Plans 2 or PERS plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. PERS defined benefit retirement benefits are financed from a combination of investment earnings and employee and

CITY OF VANCOUVER

NOTES TO FINANCIAL STATEMENTS

employer contributions. PERS retirement benefit provisions are established in state statute and may be amended only by the state legislature.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The annual pension is two percent of the final average salary per year of service, capped at 60 percent. The average final compensation is based on the greatest compensation during any 24 eligible consecutive compensation months. If qualified, after reaching age 66 a cost-of-living allowance is granted based on years of service credit and is capped at 3 percent annually.

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at 55 with 20 years of service, with an allowance of two percent per year of service of the average final compensation. Plan 2 retirements prior to 65 receive reduced benefits. If retirement is at age 55 with 30 years of service, a 3 percent per year reduction applies, otherwise an actuarial reduction will apply. There is no cap on years of service credit and a cost of living allowance is granted (indexed to the Seattle Consumer Price Index) and capped at three percent annually.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 3 members become eligible for retirement if they have: at least ten years of service; or five years including twelve months that were earned after age 54; or five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Employee Retirement Benefits Board.

There are 1,155 participating employers in PERS. Membership in PERS consisted of the following at September 30, 2001:

Retirees and Beneficiaries Receiving Benefits	62,189
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	18,412
Active Plan Members Vested	97,777
Active Plan Members Non-vested	55,159
Total	<u>233,537</u>

Funding Policy:

Each biennium the State Pension Funding Council adopts Plan 1-employer contribution rates and Plan 2 employer and employee contribution rates. Employee contribution rates for Plan 1 are established by statute at six percent and do not vary from year to year. The employer and employee contribution rates for Plan 2 are set by the Director of the Department of Retirement Systems based on recommendations by the Office of State Actuary to continue to fully fund the plan. All employers are required to contribute at the level established by state law. The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The city and the employees made the required contributions. The city's required contributions for the years ended December 31 were:

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
2002	\$ 32,262	\$ 431,537	\$ 2,762
2001	75,176	904,543	N/A
2000	106,356	1,008,458	N/A

LAW ENFORCEMENT OFFICERS AND FIREFIGHTERS (LEOFF) PLANS 1 AND 2

Plan Description:

The LEOFF system is a cost-sharing multiple-employer retirement system. Membership in the system includes all full-time, fully compensated, local law enforcement officers, and firefighters. LEOFF is comprised solely of non-state employees. The LEOFF system includes two defined benefit pension plans. Participants who joined the system by September 30, 1977, are Plan 1 members. Those joining thereafter are enrolled in Plan 2. Retirement benefits are financed from employee and employer contributions, investment earnings and state contributions. Retirement benefit provisions are established in state statute and may be amended only by the state legislature.

CITY OF VANCOUVER

NOTES TO FINANCIAL STATEMENTS

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible to retire with five years of service at age 50. The benefit per year of service is as follows:

<u>Term of Service</u>	<u>Percent of Final Average</u>
20 or more years	2.0%
10 but less than 20 years	1.5%
5 but less than 10 years	1.0%

The final average salary is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. If membership was established in LEOFF after February 18, 1974, the service retirement benefit is capped at 60 percent of final average salary. A cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index).

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members are eligible to retire at the age of 50 with 20 years of service or at 53 with five years of service. Retirement benefits prior to age 53 are actuarially reduced three percent for each year that the benefit commences prior to age 53. The benefit is two percent of the average salary per year of service. The average salary is based on the highest consecutive 60 months. There is no cap on years of service credit and a cost-of-living allowance is granted, capped at 3 percent annually.

There are 359 participating employers in LEOFF. Membership in LEOFF consisted of the following at September 31, 2001:

Retirees and Beneficiaries Receiving Benefits	8,078
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	332
Active Plan Members Vested	10,894
Active Plan Members Non-vested	4,006
Total	<u>23,310</u>

Funding Policy:

Starting on July 1, 2000, Plan 1 employers and employees will contribute zero percent as long as the plan remains fully funded. Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plan. Plan 2 employers and employees are required to pay at the level adopted by the Department of Retirement Systems in accordance with 41.45 RCW. All employers are required to contribute at the level required by state law. The Legislature, by means of a special funding arrangement, appropriated money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 1 in accordance with the requirements of the Pension Funding Council. However, this special funding situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statute. The methods used to determine the contribution rates are established under state statute in accordance with Chapters 41.26 and 41.45 RCW.

The city and the employees made the required contributions. The city's required contributions for the years ended December 31 were:

	<u>LEOFF Plan 1</u>	<u>LEOFF Plan 2</u>
2002	\$ 2,202	\$634,370
2001	3,392	748,430
2000	66,879	693,920

POLICE OFFICERS AND FIREFIGHTERS PENSION FUNDS

The city administers two single employer defined benefit pension plans, Police and Relief Pension Fund and Fire Pension Fund. These funds were established by the city in compliance with requirements of the Revised Code of Washington (RCW) 41.20 and 41.18. The plans are limited to police officers, firefighters and beneficiaries employed before March 1, 1970, the effective date of LEOFF. The LEOFF laws were subsequently amended by the Pension Reform Act, which took effect October 1, 1977. Through the LEOFF Act, the state undertook to provide the bulk of police and fire pensions; however, the municipalities continue to be responsible for all or part of pension benefits for employees hired before March 1, 1970, as discussed later. The plans are closed plans that provide pension and medical benefits, some of which can be in excess of LEOFF benefits.

Benefit Provisions

The LEOFF Act requires a varying obligation of the city for benefits paid to police officers and firefighters.

- Pension and medical for police officers and firefighters retired prior to March 1, 1970, continue to be paid in their entirety by the city under the old pension laws.
- Police officers and firefighters hired before, but not retired on March 1, 1970, received at retirement the greater of the pension benefit provided under the old pension laws and under the LEOFF Act. Any excess of the old benefit over the LEOFF benefit is provided by the city. The city also pays the reasonable cost of necessary medical expenses of the retiree only for life.
- For police officers and firefighters hired on or after March 1, 1970, and prior to October 1, 1977, the city is obligated for lifetime medical expenses only. The LEOFF system pays the entire retirement allowance.
- Police officers and firefighters hired on or after October 1, 1977 are covered entirely by the LEOFF system with no city obligation for either retirement allowance or medical expenses.

There were no changes in benefit provisions in the current year.

Summary of Significant Accounting Policies

The Police and Fire plans are shown as trust funds in the financial statements of the city. The financial statements are prepared using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The City follows GASB Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures" and GASB Statement No. 27, "Accounting for Pensions by State and Local Governmental Employers."

As of December 31, 2002, the Firefighters Pension fund had an investment portfolio with fair value of \$5,019,192. \$3,118,632 was invested in corporate bonds and \$1,900,560 was invested in federal agencies. The City of Vancouver has a safekeeping custodial agreement with US Bank Corporate Trust. Market values for the corporate bonds are provided by the safekeeping custodian, using the services of Interactive Data, an independent securities evaluation agency. The agency utilizes various models to estimate the value of the securities daily, based upon actual representative market activity. The Washington State Treasurer Local Government Investment Pool is a Rule 2a-7 money market type fund with an average portfolio maturity of less than 91 days. Therefore, this portion of the Firefighters Pension fund portfolio is valued at cost. The Police Pension fund reported no investments at December 31, 2002. Investments are reported at fair value.

The city does not hold an investment in any one corporation or organization exceeding 5% of net assets available for benefits. Additionally, the city does not have any long-term contract for contributions and any amounts outstanding at the report date.

Contributions and Reserves

Each Plan receives funding as detailed in section A of this note. Funding for the Police Pension Fund comes from annual transfers from the General Fund that are budgeted and approved by council. Sources of funding for the Firefighters Pension Fund include donations, distributions from the state from fire insurance premium collections, and a property tax levy of up to \$.45 per \$1,000 of assessed valuation. Milliman and Robertson, Inc completed actuarial studies of the two funds as of January 1, 2001. The General Fund is responsible for the costs of administering the plans. Obligations for medical expenses are funded for the most part by group insurance. There have been no required employee contributions to the plans since March 1, 1970. As of December 31, 2002, the Police Pension Funds and the Firefighters Pension Fund reported net assets reserved for payment of future claims of \$468,377 and \$5,989,300, respectively.

Police and Fire Pension Funds Annual Pension Cost and Net Pension Obligation

	Police Pension	Fire Pension
Amortized of Unfunded Actuarial Liability (UAL)	\$ 354,208	\$ 392,064
Interest to December 31, 2001	24,795	27,444
Actuarial Required Contribution (ARC) 12/31/01	379,003	419,508
Interest on Net Pension Obligation (NPO)	(24,734)	6,733
Adjustment to Net Pension Obligation	26,896	(7,321)
Annual Pension Cost (APC)	381,165	418,920
Employer Contributions	(290,192)	(575,511)
Increase (Decrease) in NPO	90,973	(156,591)
Net Pension Obligation January 1, 2002	(353,337)	96,180
Net Pension Obligation December 31, 2002	<u>\$ (262,364)</u>	<u>\$ (60,411)</u>

Three Year Trend Information**Police Pension Fund**

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Contribution as a Percentage of APC</u>	<u>Net Pension Obligation</u>
12/31/00	\$ 389,175	140.6%	\$ (403,588)
12/31/01	381,148	86.8%	(353,337)
12/31/02	381,165	76.1%	(262,364)

Firefighters Pension Fund

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Contribution as a Percentage of APC</u>	<u>Net Pension Obligation</u>
12/31/00	\$ 401,182	56.2%	\$ 387,039
12/31/01	417,451	169.7%	96,180
12/31/02	418,920	137.4%	(60,411)

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Six-year trend information is presented as required supplementary information following the Notes to the Financial Statements.

Separate financial statements are not issued for the police and fire pension plan. The statement of net assets and the statement of changes in fiduciary net assets for the police and fire pension plans is disclosed below:

CITY OF VANCOUVER

NOTES TO FINANCIAL STATEMENTS

CITY OF VANCOUVER
STATEMENT OF NET ASSETS
POLICE AND FIRE PENSION PLANS
December 31, 2002

	<u>Police Pension</u>	<u>Fire Pension</u>
ASSETS		
Cash, cash equivalents and pooled investments	\$ 425,409	\$ 780,352
Investments (at fair value)	0	5,019,192
Receivables (net):		
Accounts	47,065	111,899
Interest	0	69,004
Prepaid expenses	10,215	20,000
TOTAL ASSETS	<u>482,689</u>	<u>6,000,447</u>
LIABILITIES		
Vouchers and accrued employee payables	14,312	11,147
Total liabilities	<u>14,312</u>	<u>11,147</u>
NET ASSETS		
Held in trust for pension benefits	<u>\$ 468,377</u>	<u>\$ 5,989,300</u>

CITY OF VANCOUVER
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
POLICE AND FIRE PENSION PLANS
For The Year Ended December 31, 2002

	<u>Police Pension</u>	<u>Fire Pension</u>
Additions:		
Employer Contributions		
For pension benefits	\$ 284,071	\$ 575,012
benefits	286,029	402,406
Total Contributions	<u>570,100</u>	<u>977,418</u>
Investment Income		
Interest earnings	0	559,715
Total Investment Income	<u>0</u>	<u>559,715</u>
Total Additions	<u>570,100</u>	<u>1,537,133</u>
Deductions:		
Pension benefits	319,633	621,712
Healthcare premium subsidies	286,029	402,407
Administrative expense	1,030	8,573
Total Deductions	<u>606,692</u>	<u>1,032,692</u>
Change in net assets	(36,592)	504,441
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
BEGINNING OF YEAR	<u>504,969</u>	<u>5,484,859</u>
END OF YEAR	<u>\$ 468,377</u>	<u>\$ 5,989,300</u>

CITY OF VANCOUVER

NOTES TO FINANCIAL STATEMENTS

I. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

In addition to the pension benefits described in Note 5(A), the city provides postretirement health care benefits in accordance with statute to retired police and fire employees who are eligible under the Police Relief and Pension Fund and Firefighter's Pension Fund. Currently, 146 retirees meet those eligibility requirements.

The city reimburses 100 percent of the amount of validated claims for medical and hospitalization costs incurred by retirees. The city pays for the retiree's monthly insurance premium and also picks up the balance owing after insurance and Medicare payments are made. The pension board performs an annual survey to determine the limit of optical and chiropractic care to be covered. The city also reimburses a monthly fixed amount equal to the Medicare premium for each retiree eligible for Medicare.

Employer contributions are financed on pay-as-you-go basis. Expenditures for postretirement health care benefits are recognized as retirees report claims and include a provision for estimated claims incurred but not yet reported to the city.

During the year, expenditures of \$688,436 were recognized for postretirement health care.

J. REPORTING CHANGES

Implementation of GASB 39

During 2002, the city implemented GASB 39, *Determining Whether Organizations Are Component Units - An Amendment of GASB Statement No. 14*. In accordance with this statement, the City has adopted discrete presentation of financial information for its component units, Vancouver Area Development Authority (VADA) and Public Facilities District (PFD). Prior to 2002, separate financial statements were prepared for PFD, whereas VADA was included in the City's Business-Type activities. The removal of VADA from Business-Type activities changed the 2002 beginning balance of the City's Net Assets from \$516,987,897 to \$516,948,818, a reduction of \$39,079.

Change in Beginning Net Asset Balance

As discussed above, the Beginning Net Asset Balance on the Statement of Activities was reduced by \$39,079.

CITY OF VANCOUVER
REQUIRED SUPPLEMENTARY INFORMATION
POLICE AND FIRE PENSION FUNDS

Schedule of Funding Progress
(in thousands)

Retirement System	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liabilities	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
Police Relief and Pension Fund	01/01/1997	\$ 93	\$ 5,274	\$ 5,181	1.76%	\$ 102	5065%
	01/01/1999	141	4,951	4,810	2.85%	59	8153%
	01/01/2001	568	5,271	4,703	10.80%	0	N/A
	01/01/2003	468	3,760	3,292	12.45%	0	N/A
Fireman's Pension Fund	01/01/1997	\$ 4,914	\$ 8,161	\$ 3,247	60.20%	\$ 109	2973%
	01/01/1999	5,134	10,116	4,982	50.80%	63	7908%
	01/01/2001	5,108	10,313	5,205	49.50%	0	N/A
	01/01/2003	5,993	9,233	3,240	64.91%	0	N/A

Schedule of Employer Contributions

Retirement System	Fiscal Year Ending	Actual Employer Contribution	Annual Required Contribution (ARC)	Percentage of APC Contributed
Police Relief and Pension Fund	12/31/1997	\$ 447,244	\$ 419,499	107%
	12/31/1998	462,232	419,499	110%
	12/31/1999	565,124	387,831	146%
	12/31/2000	547,379	387,831	141%
	12/31/2001	330,897	379,003	87%
	12/31/2002	290,192	379,003	77%
Fireman's Pension Fund	12/31/1997	\$ 209,653	\$ 264,318	79%
	12/31/1998	341,877	264,318	129%
	12/31/1999	268,634	402,359	67%
	12/31/2000	225,508	402,359	56%
	12/31/2001	708,310	419,508	169%
	12/31/2002	575,511	419,508	137%

Prior information used to determine funding requirements for Police Relief and Pension and Firemen's Pension Funds do not meet the parameters for actuarial calculations for defined benefit pension plans and so historical data prior to 1997 are not shown. The city's plan is valued biennially. The next actuarial valuation is scheduled for 1/1/03.

City of Vancouver
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
POLICE AND FIRE PENSION FUNDS

	<u>Police Pension</u>	<u>Fire Pension</u>
Valuation Date	01/01/2002	01/01/2002
Actuarial Cost Method	Entry age	Entry age
Amortization Method	Level Percent Open	Level Percent Open
Remaining Amortization Period	30 years	30 years
Asset Valuation method	Fair Value	Fair Value
Actuarial Assumptions:		
Investment rate of return	7%	7%
Projected Salary Increases	5%	5%
Includes Inflation at	4%	4%
Cost of living adjustments	Varies*	Varies*

*Under the Police and Fire Pension funds, most adjustments are based on the change in salary for the rank of the members held at retirement or based on the Consumer Price Index. Adjustments are determined in accordance with RCW 41.18.150, RCW 41.20 and RCW 41.26.

APPENDIX D
BOOK-ENTRY SYSTEM

APPENDIX D

BOOK-ENTRY SYSTEM

The following information (except for the final paragraph) has been provided by the Depository Trust Company, New York, New York ("DTC"). The City makes no representation regarding the accuracy or completeness thereof. Beneficial Owners (as hereinafter defined) should therefore confirm the following with DTC or the Participants (as hereinafter defined).

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds in the principal amount of such maturity and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, and trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. **Neither the information on DTC's website, nor any links from that website, is part of this Official Statement, and such information cannot be relied upon to be accurate as of the date of this Official Statement, nor should any such information be relied upon to make investment decisions regarding the Bonds.**

Purchases of the Bonds under the DTC system, in denominations of \$5,000 or any integral multiple thereof, must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

When notices are given, they shall be sent by the Registrar to DTC only. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or any other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the City and the Registrar. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of the book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

With respect to Bonds registered on the Bond Register in the name of Cede & Co., as nominee of DTC, the City and the Registrar shall have no responsibility or obligation to any Participant or to any person on behalf of whom a Participant holds an interest in the Bonds with respect to (i) the accuracy of the records of DTC, Cede & Co. or any Participant with respect to any ownership interest in the Bonds; (ii) the delivery to any Participant or any other person, other than a bondowner as shown on the Bond Register, of any notice with respect to the Bonds,

including any notice of redemption; (iii) the payment to any Participant or any other person, other than a bondowner as shown on the Bond Register, of any amount with respect to principal of, premium, if any, or interest on the Bonds; (iv) the selection by DTC or any Participant of any person to receive payment in the event of a partial redemption of the Bonds; (v) any consent given action taken by DTC as registered owner; or (vi) any other matter. The City and the Registrar may treat and consider Cede & Co., in whose name each Bond is registered on the Bond Register, as the holder and absolute owner of such Bond for the purpose of payment of principal and interest with respect to such Bond, for the purpose of giving notices of redemption and other matters with respect to such Bond, for the purpose of registering transfers with respect to such Bond, and for all other purposes whatsoever. For the purposes of this Official Statement, the term "Beneficial Owner" shall include the person for whom the Participant acquires an interest in the Bonds.

APPENDIX E

CERTAIN DEFINITIONS FROM THE BOND ORDINANCE

APPENDIX E

CERTAIN DEFINITIONS FROM THE BOND ORDINANCE

As used in the Bond Ordinance and this Official Statement, the following words shall have the following meanings:

“Acquired Obligations” means the Government Obligations acquired by the City under the terms of the Bond Ordinance and the Escrow Agreement to effect the defeasance and refunding of the Refunded Bonds.

“Adjusted Net Revenues” shall have the meaning given such term under the heading “SECURITY FOR THE BONDS—Future Parity Bonds” in the forepart of this Official Statement.

“Annual Debt Service” for any Fiscal Year or calendar year means the sum of:

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

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

“Average Annual Debt Service” means the amount determined by dividing (a) the sum of all interest and principal to be paid on outstanding Parity Bonds from the date of determination to the last maturity date of such Parity Bonds, by (b) the number of Fiscal Years or calendar years from and including the Fiscal Year or calendar year in which the determination is made to the last Fiscal Year or calendar year in which the sum of (i) the principal amount of Serial Bonds maturing in such Fiscal Year plus (ii) the Sinking Fund Requirement for such Fiscal Year, exceeds 4% of the principal amount of Parity Bonds outstanding as of the date of determination.

“Beneficial Owner” means any person that has or shares the power, directly or indirectly to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

“Bond Fund” means the Water and Sewer Revenue Bond Fund established pursuant to Section 3.2 of Ordinance No. M-2572. The Bond Fund has an Interest Account, a Principal Account, a Reserve Account and a Bond Retirement Account.

“Bond Insurance Policy” means the municipal bond insurance policy issued by the Insurer that guarantees payment of principal of and interest on the Bonds.

“Bond Register” means the registration books showing the name, address and tax identification number of each Registered Owner of the Bonds, maintained pursuant to Section 149(a) of the Code.

“Bond Registrar” means the fiscal agency of the State of Washington, for the purposes of registering and authenticating the Bonds, maintaining the Bond Register, effecting transfer of ownership of the Bonds, and paying the principal of, premium, if any, and interest on the Bonds.

“Bond Retirement Account” means the account of that name created in the Bond Fund to amortize the principal of Term Bonds.

“Bonds” means the City of Vancouver, Washington Water and Sewer Revenue Refunding Bonds, 2004 authorized to be issued pursuant to the Bond Ordinance.

“City Manager” means the City Manager of the City, or any successor to the functions of the City Manager.

“Code” means the federal Internal Revenue Code of 1986, as amended, and applicable regulations.

“Commission” means the Securities and Exchange Commission.

“Council” means the general legislative body of the City as the same shall be duly and regularly constituted from time to time.

“Coverage Stabilization Account” means the account of that name created pursuant to Section 4.1 of Ordinance No. M-3315.

“DTC” means The Depository Trust Company, New York, New York, a limited purpose trust company organized under the laws of the State of New York, as depository for the Bonds pursuant to the Bond Ordinance.

“Escrow Agent” means U.S. Bank National Association.

“Escrow Agreement” means the Escrow Deposit Agreement to be dated as of the date of closing and delivery of the Bonds substantially in the form attached to the Bond Ordinance as Exhibit A.

“Event of Default” with respect to the Bonds, means an Event of Default as defined in Section 18 of the Bond Ordinance.

“Fiscal Year” means the fiscal year used by the City at any time.

“Future Parity Bonds” means any water and sewer revenue bonds to be issued in the future as Parity Bonds.

“Future Parity Bond Coverage Test” means Adjusted Net Revenues to be received each calendar year or Fiscal Year after the issuance of a series of Future Parity Bonds equal or greater than 1.3 times the Average Annual Debt Service in each such calendar year or Fiscal Year, on the Parity Bonds that shall be outstanding in each such calendar year or Fiscal Year (including the Future Parity Bonds proposed to be issued).

“General Account” means the account of that name in the Revenue Fund, created pursuant to Section 4.1 of Ordinance No. M-3315.

“Government Obligations” means those obligations now or hereafter defined as such in chapter 39.53 RCW.

“Insurer” means Financial Guaranty Insurance Company, a New York stock insurance company, or any successor thereto or assignee thereof, as issuer of a Bond Insurance Policy for the Bonds.

“Letter of Representations” means the blanket issuer letter of representations from the City to DTC.

“MSRB” means the Municipal Securities Rulemaking Board.

“Net Revenues” means the Revenues less the Operating Expenses.

“NRMSIR” means a nationally recognized municipal securities information repository.

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

“Outstanding Parity Bonds” means the parity water and sewer revenue bonds of the City identified in the recitals to the Bond Ordinance.

“Parity Bonds” means the Outstanding Parity Bonds, the Bonds and any Future Parity Bonds. “Parity Bonds” may include bonds, notes, warrants, certificates of indebtedness or any other evidence of indebtedness.

“Permitted Investments” means any investment that is legal and authorized for funds of the City.

“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.

“Qualified Insurance” means any unconditional 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, which insurance company or service corporation is rated in one of the two highest rating categories by either Moody’s Investors Service or Standard & Poor’s Ratings Services, whichever rating agency then maintains a rating on the Bonds, or, if both of such rating agencies have ratings on the Bonds outstanding, then such company or bank shall be so rated by both agencies, provided, that, as of the time of issuance of such policy or surety bond, such insurance company or companies maintain a policyowner’s surplus in excess of \$500,000,000.

“Qualified Letter of Credit” means any irrevocable letter of credit issued by a bank for the account of the City and for the benefit of the owners of any of the Parity 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 by either Moody’s Investors Service or Standard & Poor’s Ratings Services, whichever rating agency then maintains a rating on the Parity Bonds, or, if both of such rating agencies have ratings on the Parity Bonds outstanding, then such company or bank shall be so rated by both agencies.

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

“Reserve Account” means the account of that name created in the Bond Fund to secure the payment of the principal of and interest on any Parity Bonds.

“Reserve Account Requirement” means, with respect to any issue of Parity Bonds, the lesser of (a) maximum Annual Debt Service on all outstanding Parity Bonds, and (b) 125% of Average Annual Debt Service on all outstanding Parity Bonds; provided, that the amount required to be deposited under the Bond

Ordinance with respect to any Future Parity Bonds in order to meet the Reserve Fund Requirement shall not exceed 10% of the net proceeds of such Future Parity Bonds under the Code.

“Revenue Fund” means the Water and Sewer Revenue Fund of the City created by Section 4 of Ordinance No. M-93 of the City.

“Revenues” means all income, receipts and revenues received 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 or facilities of the System, together with the investment income earned on moneys held in any fund or account of the City including the Bond Fund, in connection with the ownership and operation of the System, and any contributions from other funds of the City or other sources, including individual and government agencies, but excluding investment income restricted to a particular purpose inconsistent with its use for the payment of debt service generally, in connection with the ownership and operation of the System. **From and after the date that all Outstanding Parity Bonds issued prior to 2002 are no longer outstanding, “Revenues” shall include any withdrawal from the Coverage Stabilization Account and shall exclude transfers to the Coverage Stabilization Account, for purposes of demonstrating compliance with the Rate Covenant, but not for purposes of complying with the Future Parity Bond Coverage Test, all as described in the Bond Ordinance.**

“Rule” means the Commission’s Rule 15c2-12 under the Securities Exchange Act of 1934, as amended.

“Serial Bonds” means Parity Bonds other than Term Bonds.

“SID” means a state information depository for the State of Washington (if one is created).

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

“System” means the existing sanitary sewage collection and treatment system of the City, together with the existing water supply and distribution system and the existing storm drainage facilities of the City, as such systems now exist and as they may later be added to, extended and improved, for as long as any Parity Bonds remain outstanding. The City Council may, in its discretion, hereafter determine by ordinance to include facilities for the collection, processing of and disposal of solid waste as a part of the System.

“Term Bonds” means any Parity Bonds, identified as such in the ordinance authorizing the issuance thereof or the bond purchase contract with respect thereto, that are subject to mandatory redemption, the payment of which is provided for by a requirement for mandatory deposits of money into the Bond Retirement Account.

“Treasurer” means the Treasurer of the City or the person succeeding to the functions currently performed by the Treasurer.

“Underwriter” means Piper Jaffray & Co., Seattle, Washington.

APPENDIX F
MUNICIPAL BOND INSURANCE POLICY SPECIMEN



Financial Guaranty Insurance Company
 125 Park Avenue
 New York, NY 10017
 T 212-312-3000
 T 800-352-0001

Municipal Bond New Issue Insurance Policy

Issuer:	Policy Number:
	Control Number: 0010001
Bonds:	Premium:

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to U.S. Bank Trust National Association or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a Bond, the stated date for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all

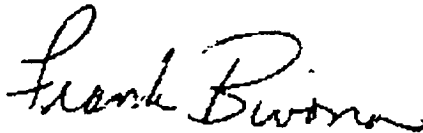


Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017
T 212-312-3000
T 800-352-0001

Municipal Bond New Issue Insurance Policy

principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

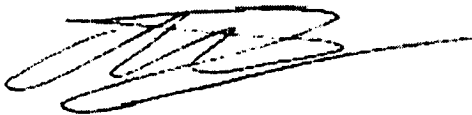


President

Effective Date:

Authorized Representative

U.S. Bank Trust National Association, acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.



Authorized Officer



Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017
T 212-312-3000
T 800-352-0001

Endorsement To Financial Guaranty Insurance Company Insurance Policy

Policy Number:

Control Number: 0010001

It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date:

Authorized Representative

Acknowledged as of the Effective Date written above:

Authorized Officer


U.S. Bank Trust National Association, as Fiscal Agent

CLOSING CERTIFICATE

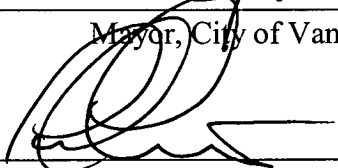
We, ROYCE E. POLLARD and PAUL LEWIS, the Mayor and City Clerk, respectively, of the City of Vancouver, Washington (the "City"), acting in our official capacities, DO HEREBY CERTIFY that the City's execution of the Final Official Statement is authorized, and that to the best of our knowledge and belief, and after reasonable investigation, (i) the Preliminary Official Statement and Final Official Statement (collectively the "Official Statement") (including the financial and statistical data contained therein) did not as of its date or as of this date contain any untrue statement of material fact or omit to state a material fact necessary to make such statements, in light of the circumstances under which they were made, not misleading, with regards to which, no such representation is made on the information regarding The Depository Trust Company and its book-entry system, Financial Guaranty Insurance Company, Causey, Demgen and Moore Inc. and U.S. Bank National Association; and (ii) that the representations of the City contained in the Purchase Contract dated February 4, 2004 between the City and Piper Jaffray & Co. as underwriter were true and correct as of the date thereof and are true and correct as of this date.

The execution of this certificate shall constitute execution of the Official Statement by the City.

DATED as of this 26th day of February, 2004



Mayor, City of Vancouver



City Clerk, City of Vancouver

SIGNATURE IDENTIFICATION AND NONLITIGATION CERTIFICATE

We, ROYCE E. POLLARD and PAUL LEWIS, the duly chosen, qualified and acting Mayor and City Clerk, respectively, of the City of Vancouver, Washington (the "City"), DO HEREBY CERTIFY that our facsimile signatures appearing on each of the following described revenue refunding bonds of the City are true and genuine facsimiles of our signatures.

Said bonds are dated as of February 26, 2004, are designated "City of Vancouver, Washington Water and Sewer Revenue Refunding Bonds, 2004," are in fully or any integral multiple thereof, provided that no Bond shall represent more than one maturity, are numbered separately, bear interest payable on the first day of June 1, 2004 and semiannually thereafter on the first days of each June and December at the following rates and mature on June 1 of the following years in the following amounts:

Maturity Year (June 1)	Principal Amount	Interest Rate
2004	\$ 30,000	2.000%
2005	120,000	2.000
2006	125,000	2.000
2007	125,000	2.500
2008	130,000	2.750
2009	135,000	3.000
2010	1,455,000	3.000
2011	1,505,000	5.000
2012	1,595,000	5.000
2013	805,000	3.375
2014	2,600,000	5.250
2015	2,750,000	5.250
2016	2,895,000	5.250
2017	2,185,000	5.000
2018	2,305,000	5.000
2019	3,650,000	5.000
2020	3,840,000	5.000

WE FURTHER CERTIFY that (i) the City's undertaking in Section 19 of Ordinance No. M-3644 is in effect and has not been amended and, except as has been disclosed to the underwriter of the Bonds, the City has not defaulted in any material respect under any prior undertakings to provide ongoing information pursuant to Rule 15(c)2-12 and (ii) that there is no controversy or litigation pending or to the best of our knowledge threatened affecting the issuance and delivery of the Bonds, the collection of revenues to pay the principal thereof and interest thereon, the proceedings and authority under which the Bonds are issued and said revenues collected, the validity of the Bonds, the corporate existence or boundaries of the City, or the title of the present officers to their respective offices, and that no authority or proceedings for the issuance of the Bonds has or have been repealed, revoked or rescinded.

Financial Guaranty Insurance
Company
125 Park Avenue
New York, NY 10017
(212) 312-3000
(800) 352-0001



Commitment

For Municipal Bond Insurance

Issuer: City of Vancouver, Clark County,
Washington

Date of Commitment: December 16, 2003

Expiration Date: March 5, 2004*

Bonds Insured: Not to exceed \$30,000,000 in
principal amount of Water and Sewer Revenue
Refunding Bonds, 2003

Premium: 0.327% of total debt service on the
Bonds Insured **

FINANCIAL GUARANTY INSURANCE COMPANY

("Financial Guaranty")

A Stock Insurance Company

hereby commits to issue a Municipal Bond New Issue Insurance Policy (the "Policy"), in the form attached hereto as Exhibit A, relating to the above-described debt obligations (the "Bonds"), subject to the terms and conditions contained herein or added hereto.

To keep this Commitment in effect after the Expiration Date set forth above, a request for renewal must be submitted to Financial Guaranty prior to such Expiration Date. Financial Guaranty reserves the right to refuse wholly or in part to grant a renewal.

THE MUNICIPAL BOND NEW ISSUE INSURANCE POLICY SHALL BE ISSUED IF THE CONDITIONS SPECIFIED BELOW ARE SATISFIED.

1. In addition to the satisfaction of the other conditions set forth herein, Financial Guaranty shall be provided with:
 - (a) (i) Executed copies of all financing documents, the official statement (or any similar disclosure document), and all Bond documentation evidencing the Issuer's ability and intent to comply with the Internal Revenue Code of 1986, as amended (if in the opinion of bond counsel (described below) ongoing compliance would be necessary to maintain the exemption from federal income taxation of interest on the Bonds), which shall be in form and substance acceptable to Financial Guaranty; (ii) the various legal opinions delivered in connection with the issuance and sale of the Bonds, including, without limitation, the unqualified approving

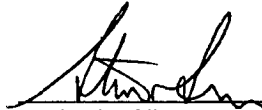
* Subject to written acceptance of this Commitment being furnished to Financial Guaranty by the earlier of the date on which the disclosure document relating to the Bonds is circulated and December 23, 2003.

** The amount of Bond proceeds deposited with the Trustee or Paying Agent at closing for the payment of accrued interest shall not be applied as a credit in calculating total debt service on the Bonds Insured.

opinion of bond counsel rendered by a law firm acceptable to Financial Guaranty and addressed to (or with a reliance letter addressed to) Financial Guaranty, which opinion shall include statements to the effect that (A) the interest on the Bonds is excludable from gross income of the holders thereof for federal income tax purposes under the Internal Revenue Code of 1986, as amended (if the Bonds are issued as tax-exempt obligations); and (B) the principal financing documents have been duly and validly authorized, executed and delivered, and are enforceable in accordance with their terms. Copies of all drafts of such documents and legal opinions (blacklined as appropriate) prepared subsequent to the date of this Commitment shall be furnished to Financial Guaranty. Final drafts of such documents shall be provided to Financial Guaranty at least five (5) business days prior to the issuance of the Policy unless Financial Guaranty shall approve a shorter period and such documents shall be satisfactory to Financial Guaranty in all respects.

- (b) Evidence of wire transfer in federal funds in an amount equal to the insurance premium unless alternative arrangements for the payment of the premium acceptable to Financial Guaranty have been made prior to the delivery date of the Bonds. Please note the attached Wire Instructions.
- 2. In addition to the foregoing, all of the conditions contained in the Exhibits hereto (including without limitation the Exhibits entitled "Standard Financial Guaranty Legal Conditions" and "Additional Legal Conditions") shall be satisfied.
- 3. All authorizing documents shall be subject to Financial Guaranty's review and approval and shall incorporate all of the terms and conditions set forth in the exhibit attached hereto entitled "Legal Documentation Requirements," all of which provisions may, at bond counsel's election, be incorporated into one article of, or as an exhibit to, the appropriate authorizing documents, or may be incorporated into the appropriate specific sections of the appropriate authorizing documents. At or prior to closing, Financial Guaranty shall receive evidence satisfactory to it that all necessary procedures, including but not limited to the filing of Uniform Commercial Code financing or continuation statements, if appropriate, have been satisfied, in order to grant bondholders a perfected security interest in the revenues or other collateral pledged as security for the Bonds.
- 4. All drafts of the preliminary official statement, official statement or any other disclosure documents and the form of the Bonds should be directed to the attention of Anna Gaffney (Phone 212-312-3067), Financial Guaranty's Closing Coordinator, for approval. Any inquiries concerning this Commitment should be directed to Jim Li (Phone 212-312-3259), the Financial Guaranty analyst assigned to this transaction. All legal documentation should be directed to Financial Guaranty's Senior Counsel, Isabel Guerra (phone 212-312-3245).

5. Promptly after the closing of the Bonds, Financial Guaranty shall receive three completed sets of executed documents (one original and two photocopies), copies of which we will deliver to each agency rating the Bonds.



Authorized Representative

To keep this commitment in effect to the Expiration Date set forth on the first page, Financial Guaranty must receive a duplicate of this Commitment executed by an appropriate officer of City of Vancouver, Clark County by December 23, 2003.

The undersigned agrees that if the Bonds are insured by a policy of municipal bond insurance, such insurance shall be provided by Financial Guaranty in accordance with the terms of this Commitment.

Accepted as of _____ by City of Vancouver, Clark County, Washington.

By: _____

Name: _____

Title: _____

6012243



Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017
T 212-312-3000
T 800-352-0001

Municipal Bond New Issue Insurance Policy

Issuer: City of Vancouver, Washington

Policy Number: 04010068

Control Number: 0010001

Bonds: \$26,250,000.00 in aggregate principal
amount of Water and Sewer Revenue
Refunding Bonds, 2004

Premium: \$137,107.49

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay U.S. Bank Trust National Association or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a Bond, the stated date for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed



Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017
T 212-312-3000
T 800-352-0001

Municipal Bond New Issue Insurance Policy

in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date: February 26, 2004

Authorized Representative

U.S. Bank Trust National Association acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

Authorized Officer



Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017
T 212-312-3000
T 800-352-0001

Endorsement To Financial Guaranty Insurance Company Insurance Policy

Policy Number: 04010068

Control Number: 0010001

It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date: February 26, 2004

Authorized Representative

Acknowledged as of the Effective Date written above:

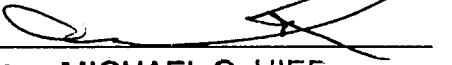
Authorized Officer
U.S. Bank Trust National Association, as Fiscal Agent

RECEIPT FOR POLICY

Receipt of the original, executed Municipal Bond Insurance Policy No. 04010068, issued by Financial Guaranty Insurance Company, dated February 26, 2004, is hereby acknowledged on behalf of The Bank of New York, in its capacity as Paying Agent, in connection with the City of Vancouver, Washington, Water and Sewer Revenue Refunding Bonds, 2004, in the principal amount of \$ 26,250,000.

Dated as of this 1st day of MARCH, 2004.

THE BANK OF NEW YORK
NEW YORK, NEW YORK

By 
Title MICHAEL C. HIEB
Vice President



Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017
T 212-312-3000
F 212-312-3093

February 26, 2004

City of Vancouver

Preston Gates & Ellis LLP

**Re: \$26,250,000.00 in aggregate principal amount of City of Vancouver,
Washington Water and Sewer Revenue Refunding Bonds, 2004**

Ladies and Gentlemen:

In connection with the issuance of the above-referenced obligations (the "Bonds"), Financial Guaranty Insurance Company ("Financial Guaranty") is issuing a municipal bond insurance policy guaranteeing the payment of principal and interest on the Bonds when due (the "Insurance Policy").

This letter is to advise you that:

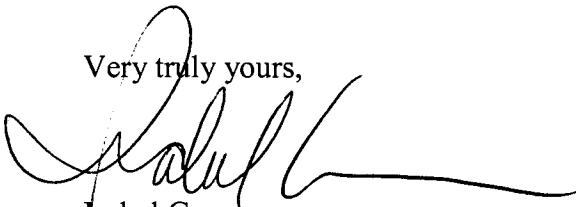
- (i) The Insurance Policy is an unconditional and recourse obligation of Financial Guaranty (enforceable by or on behalf of the holder of the Bonds) to pay the scheduled payments of principal and interest on the Bonds when due in the event of a failure by the City of Vancouver, Washington (the "Issuer") to make such payments.
- (ii) The insurance premium is required to be paid as a condition to the issuance of the Insurance Policy and is a charge for the transfer of substantially all of the credit risk for the payment of principal and interest on the Bonds.
- (iii) Financial Guaranty is not a co-obligor on the Bonds.
- (iv) Except for the premium paid to Financial Guaranty for the Insurance Policy, Financial Guaranty (and any related party within the meaning of section 1.150-1(b) of the Income Tax Regulations) will not use any portion of the proceeds of the Bonds.
- (v) No portion of the premium paid to Financial Guaranty for the Insurance Policy represents a payment for any direct or indirect services, other than the transfer of credit risk, including costs of underwriting or remarketing the Bonds or the cost of insurance for casualty to property financed with the proceeds of the Bonds.

February 26, 2004

Page 2

- (vi) The Issuer is not entitled to a refund of any portion of the premium paid for the Insurance Policy in the event that any of the Bonds are retired prior to their stated maturity.
- (vii) The establishment and funding of the debt service reserve fund in an amount equal to the debt service reserve fund requirement for the Bonds was a condition precedent to the issuance of the Insurance Policy by Financial Guaranty.

Very truly yours,



Isabel Guerra
Senior Counsel

04010068



Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017
T 212-312-3000
F 212-312-3093

February 26, 2004

City of Vancouver

Piper Jaffray & Co.,
as Underwriter or as Representative of the Underwriters

**Re: \$26,250,000.00 in aggregate principal amount of City of Vancouver,
Washington Water and Sewer Revenue Refunding Bonds, 2004**

Ladies and Gentleman:

I am Senior Counsel of Financial Guaranty Insurance Company ("Financial Guaranty"), and have been requested to render an opinion concerning the issuance by Financial Guaranty of its Municipal Bond New Issue Insurance Policy (the "Policy") in connection with the issuance of the captioned obligations (the "Bonds"). I have examined such documents and records as I have deemed relevant for purposes of this opinion, including (a) the Certificate of Incorporation of Financial Guaranty, including all amendments thereto, (b) the amended By-laws of Financial Guaranty as in effect on the date hereof, (c) the certificate of authority issued to Financial Guaranty by the Superintendent of Insurance of the State of New York, (d) the certificate of authority issued to Financial Guaranty by the Commissioner of Insurance of the State of Washington, (e) the executed Policy and (f) the statements in the Official Statement dated February 4, 2004 relating to the Bonds (the "Official Statement") under the caption "BOND INSURANCE".

On the basis of the foregoing, it is my opinion that:

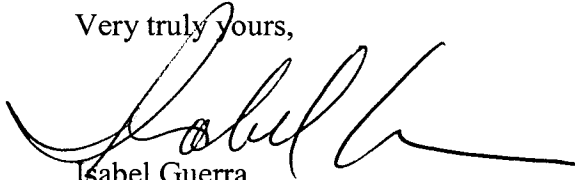
- (1) Financial Guaranty is a stock insurance corporation validly existing and in good standing under the laws of the State of New York and qualified to do business therein and is licensed and authorized to issue its financial guaranty insurance policies under the laws of the State of Washington.
- (2) The Policy is valid and binding upon Financial Guaranty and enforceable in accordance with its terms, subject to applicable laws affecting creditors' rights generally.
- (3) Financial Guaranty, as an insurance company, is not eligible for relief under the Federal Bankruptcy Laws. Any proceedings for the liquidation, conservation or rehabilitation of Financial Guaranty would be governed by the provisions of the Insurance Law of the State of New York.

February 26, 2004

Page 2

- (4) The statements described above in the Official Statement relating to Financial Guaranty and the Policy accurately and fairly present the summary information set forth therein and do not omit any material fact with respect to the description of Financial Guaranty relative to the material terms of the Policy or the ability of Financial Guaranty to meet its obligations under the Policy.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Isabel Guerra', with a long horizontal flourish extending to the right.

Isabel Guerra
Senior Counsel

CITY OF VANCOUVER WASHINGTON

**WATER AND SEWER REVENUE
REFUNDING BONDS, SERIES 2004**

CAUSEY DEMGEN & MOORE INC.

Certified Public Accountants and Consultants

Suite 4650
1801 California Street
Denver, Colorado 80202-2681
Telephone: (303) 296-2229
Facsimile: (303) 296-3731
www.cdmcpa.com

February 26, 2004

City of Vancouver, Washington
610 Esther Street
Vancouver, Washington 98668

Preston, Gates & Ellis, LLP
701 Fifth Avenue, Suite 5000
Seattle, Washington 98104-7078

Piper Jaffrey & Co.
1200 Fifth Avenue #1700
Seattle, Washington 98101-361

Financial Guaranty Insurance Company
125 Park Avenue
New York, New York 10017

We have completed our engagement to verify the mathematical accuracy of (a) the computations relating to the adequacy of cash plus U.S. Treasury Securities to be held in escrow to pay the debt service requirements of the Water and Sewer Revenue Bonds, 1999 (only those bonds maturing on and after June 1, 2010 as shown in Exhibit B-1) (herein referred to as the "Refunded Bonds") issued by the City of Vancouver, Washington (herein referred to as the "City") and (b) the computations supporting the conclusion of Bond Counsel that the Water and Sewer Revenue Refunding Bonds, Series 2004 (herein referred to as the "Refunding Bonds") to be issued by the City are not "arbitrage bonds" under Section 148 of the Internal Revenue Code of 1986, as amended. We express no opinion on the attainability of the assumptions or the tax-exempt status of the Refunding Bonds. Our verification was performed solely on the schedules of proposed transactions, provided by Piper Jaffrey & Co. (herein referred to as the "Underwriter"), and which are reflected in Exhibits A through D, which were prepared by us in performing the verification of the mathematical accuracy of the computations in the schedules provided.

The scope of our engagement consisted of performing the procedures described herein. These procedures were performed in a manner that we deem to be appropriate.

The accompanying exhibits of proposed transactions were prepared on the basis of assumptions and in accordance with the procedures described herein. We did not independently confirm the information used with outside parties.

OUR UNDERSTANDING OF THE TRANSACTION

The Refunding Bonds are to be issued on February 26, 2004 to advance refund the Refunded Bonds. A portion of the proceeds of the Refunding Bonds, together with certain amounts to be contributed from the Debt Service Reserve Fund associated with the Refunded Bonds, will be used to purchase U.S. Treasury Securities and to provide cash which will be placed into an escrow account, together with cash and a U. S. Treasury Security purchased with certain amounts to be contributed from the Debt Service Fund associated with the Refunded Bonds, to advance refund the Refunded Bonds.

CDM

The Escrow Agent will pay the debt service requirements of the Refunded Bonds on each scheduled payment date through and including June 1, 2009 and will redeem the Refunded Bonds, at a redemption price equal to 100% of par, on such date, which is the first optional redemption date.

ESCROW ACCOUNT TRANSACTIONS

We verified the mathematical accuracy of the accompanying calculations of the escrow account transactions proposed to advance refund the Refunded Bonds.

The presently outstanding debt service requirements of the Refunded Bonds will be satisfied by the purchase of U.S. Treasury Securities (as described in Exhibit A-3) plus \$101.18 in cash. The securities and cash will be placed in an irrevocable escrow account and held therein until the Refunded Bonds are redeemed as previously described.

We read a copy of the Official Statement for the Refunded Bonds insofar as such obligations are described with respect to principal outstanding, interest rates, maturity dates, and redemption provisions. We assumed this document to be accurate, and all debt service payments on the Refunded Bonds to be current as of February 26, 2004. We compared the above information set forth in such Official Statement with the related information contained in the schedules provided to us and found the information to be consistent.

We compared the subscribed interest rates of the U.S. Treasury Securities (State and Local Government Series) to be purchased and placed in escrow with the maximum allowable interest rates as published in the Department of the Treasury, Bureau of the Public Debt Form PD 4262 for January 29, 2004 and found the subscribed rates to be less than or equal to the maximum allowable rates for each respective maturity date.

Based on the procedures and information set forth above, the computations provided to us and represented in Exhibits A through B, which indicate that the cash and securities proposed to be placed in escrow by the City will produce the amounts necessary to provide for the timely payment of the proposed debt payment schedule on the Refunded Bonds, are mathematically correct.

YIELD ON THE REFUNDING BONDS

We verified the mathematical accuracy of the accompanying computations of the yield on the Refunding Bonds as of February 26, 2004. For purposes of this calculation, yield is defined as the rate of interest which, using the assumptions and procedures set forth herein, discounts the payments to be made on the Refunding Bonds to an amount equal to the target purchase price of the Refunding Bonds. The computations were made using a 360-day year with interest compounded semi-annually and treated \$2,513,374.20 as the net original issue premium and \$137,107.49 as the bond insurance premium (which results in a target purchase price of \$28,626,266.71).

Based upon the procedures and information set forth above, the computations provided to us and represented in Exhibit C and C-1, which indicate that the yield on the Refunding Bonds is 3.98301%, are mathematically correct.

**YIELD ON THE INVESTMENT IN ESCROWED OBLIGATIONS PURCHASED WITH
REFUNDING BOND PROCEEDS AND THE DEBT SERVICE RESERVE FUND
CONTRIBUTION**

We verified the mathematical accuracy of the accompanying computation of the yield on the investment in escrowed U.S. Treasury Securities purchased with Refunding Bond proceeds and the Debt Service Reserve Fund contribution based on an assumed settlement date of February 26, 2004 and a purchase price of \$28,401,939.00. For purposes of this calculation, yield is defined as the rate of interest which, using the assumptions and procedures set forth herein, discounts the cash receipts from these escrowed securities to an amount equal to the purchase price of these escrowed securities. The computations were made using a 360-day year with interest compounded semi-annually and were based on the dates the funds are to be received in the escrow account, and assume that all cash balances are not reinvested.

Based upon the procedures and information set forth above, the computations provided to us and represented in Exhibit D, which indicate that the yield on the escrowed securities purchased with Refunding Bond proceeds and the Debt Service Reserve Fund contribution is 3.20426% (which is less than the yield on the Refunding Bonds), are mathematically correct.

USE OF THIS REPORT

It is understood that this report is solely for the information of and assistance to the addressees hereof in connection with the offering of the Refunding Bonds and is not to be used, relied upon, circulated, quoted or otherwise referred to for any other purpose without our written consent, except that (i) reference may be made in the Official Statement for the Refunding Bonds in the section captioned "Verification of Mathematical Computations," (ii) reference may be made to the report in the purchase contract or in any closing documents pertaining to the offering of the Refunding Bonds, (iii) the report may be used in its entirety as an exhibit to the escrow agreement for the Refunded Bonds, (iv) the report may be included in the transcripts pertaining to the issuance of the Refunding Bonds, (v) the report may be relied upon by Bond Counsel in connection with its opinions concerning the Refunded Bonds and the Refunding Bonds, (vi) the report may be relied upon by any rating agency or bond insurer that shall have rated or insured or that will rate or insure the Refunded Bonds or the Refunding Bonds, and (vii) the report may be relied upon by the Escrow Agent for the Refunded Bonds.

* * * * *

The scope of our engagement is deemed by the addressees hereto to be sufficient to assist such

City of Vancouver, Washington

February 26, 2004

Page 4

parties in evaluating the mathematical accuracy of the various computations cited above. The sufficiency of this scope is solely the responsibility of the specified users of this report and should not be taken to supplant any additional inquiries or procedures that the users would undertake in their consideration of the issuance of the bonds related to the transaction described herein. We make no representation regarding the sufficiency of the scope of this engagement. This report should not be used by any party who does not agree to the scope set forth herein and who does not take responsibility for the sufficiency and appropriateness of such scope for their purposes.

We have no obligation to update this report because of events, circumstances, or transactions occurring subsequent to the date of this report.

Very truly yours,

Cansey Demogen & Moore Inc.

EXHIBIT A

CITY OF VANCOUVER, WASHINGTON
WATER AND SEWER REVENUE REFUNDING BONDS
SERIES 2004

ESCROW ACCOUNT CASH FLOW
AS OF FEBRUARY 26, 2004

Date	Cash Receipts from the U.S. Treasury Securities Purchased with:		Total Cash Receipts	Cash Disbursements From Escrow (Exhibit B)	Cash Balance
	the DSF Contribution (Exhibit A-1)	Refunding Bond Proceeds and the DSRF Contribution (Exhibit A-2)			
Beginning					
Balance:					\$101.18
01-Jun-04	\$373,539.97	\$371,800.59	\$745,340.56	\$745,341.25	100.49
01-Dec-04		745,341.75	745,341.75	745,341.25	100.99
01-Jun-05		745,340.99	745,340.99	745,341.25	100.73
01-Dec-05		745,342.01	745,342.01	745,341.25	101.49
01-Jun-06		745,341.26	745,341.26	745,341.25	101.50
01-Dec-06		745,341.00	745,341.00	745,341.25	101.25
01-Jun-07		745,340.99	745,340.99	745,341.25	100.99
01-Dec-07		745,341.78	745,341.78	745,341.25	101.52
01-Jun-08		745,340.73	745,340.73	745,341.25	101.00
01-Dec-08		745,341.15	745,341.15	745,341.25	100.90
01-Jun-09		25,870,340.89	25,870,340.89	25,870,341.25	100.54
	<u>\$373,539.97</u>	<u>\$32,950,213.14</u>	<u>\$33,323,753.11</u>	<u>\$33,323,753.75</u>	

EXHIBIT A-1

**CITY OF VANCOUVER, WASHINGTON
WATER AND SEWER REVENUE REFUNDING BONDS
SERIES 2004**

**CASH RECEIPT FROM THE ESCROWED SECURITY
PURCHASED WITH THE DSF CONTRIBUTION
AS OF FEBRUARY 26, 2004**

	\$372,670.00	
	0.890000%	Total
Payment	SLGS (1)	Cash
Date	01-Jun-04	Receipt
01-Jun-04	\$373,539.97	\$373,539.97
	\$373,539.97	\$373,539.97

(1) U.S. Treasury Certificate of Indebtedness
(State and Local Government Series).

CITY OF VANCOUVER, WASHINGTON
WATER AND SEWER REVENUE REFUNDING BONDS
SERIES 2004

CASH RECEIPTS FROM THE ESCROWED SECURITIES
PURCHASED WITH REFUNDING BOND PROCEEDS AND THE DSRF CONTRIBUTION
AS OF FEBRUARY 26, 2004

Payment Date	\$139,318.00 0.890000%	\$300,342.00 1.070000%	\$302,791.00 1.360000%	\$304,851.00 1.680000%	\$307,411.00 1.950000%	\$310,408.00 2.210000%	\$313,838.00 2.460000%	\$317,699.00 2.690000%	\$321,971.00 2.900000%	\$326,640.00 3.080000%	\$25,456,670.00 3.250000%	Total Cash Receipts
01-Jun-04	\$139,643.23											\$371,800.5
01-Dec-04		\$302,791.76										745,341.7
01-Jun-05			304,849.98									745,340.9
01-Dec-05				307,411.75								745,342.0
01-Jun-06					310,408.26							745,341.2
01-Dec-06						313,838.01						745,341.0
01-Jun-07							317,698.21					745,340.9
01-Dec-07								321,972.05				745,341.7
01-Jun-08									326,639.58			745,340.7
01-Dec-08										331,670.26		745,341.1
01-Jun-09											25,870,340.89	25,870,340.8
											\$29,810,386.58	\$32,950,213.1

(1) U.S. Treasury Certificate of Indebtedness (State and Local Government Series).

(2) U.S. Treasury Note or Bond (State and Local Government Series).

**CITY OF VANCOUVER, WASHINGTON
WATER AND SEWER REVENUE REFUNDING BONDS
SERIES 2004**

**DESCRIPTION OF THE ESCROWED SECURITIES
AS OF FEBRUARY 26, 2004**

Type	Settlement Date	Maturity Date	Par Amount	Coupon Rate	Price	Total Cost
Security Purchased with the Debt Service Fund Contribution:						
SLGS	26-Feb-04	01-Jun-04	\$372,670.00	0.890%	100.000000%	\$372,670.00
Securities Purchased with Refunding Bond Proceeds and the DSRF Contribution:						
SLGS	26-Feb-04	01-Jun-04	139,318.00	0.890%	100.000000%	139,318.00
SLGS	26-Feb-04	01-Dec-04	300,342.00	1.070%	100.000000%	300,342.00
SLGS	26-Feb-04	01-Jun-05	302,791.00	1.360%	100.000000%	302,791.00
SLGS	26-Feb-04	01-Dec-05	304,851.00	1.680%	100.000000%	304,851.00
SLGS	26-Feb-04	01-Jun-06	307,411.00	1.950%	100.000000%	307,411.00
SLGS	26-Feb-04	01-Dec-06	310,408.00	2.210%	100.000000%	310,408.00
SLGS	26-Feb-04	01-Jun-07	313,838.00	2.460%	100.000000%	313,838.00
SLGS	26-Feb-04	01-Dec-07	317,699.00	2.690%	100.000000%	317,699.00
SLGS	26-Feb-04	01-Jun-08	321,971.00	2.900%	100.000000%	321,971.00
SLGS	26-Feb-04	01-Dec-08	326,640.00	3.080%	100.000000%	326,640.00
SLGS	26-Feb-04	01-Jun-09	25,456,670.00	3.250%	100.000000%	25,456,670.00
			<u>28,401,939.00</u>			<u>28,401,939.00</u>
			<u>\$28,774,609.00</u>			<u>\$28,774,609.00</u>

EXHIBIT B

CITY OF VANCOUVER, WASHINGTON
 WATER AND SEWER REVENUE REFUNDING BONDS
 SERIES 2004

ESCROW ACCOUNT DISBURSEMENT REQUIREMENTS FOR THE REFUNDED BONDS
 AS OF FEBRUARY 26, 2004

Payment Date	Rate	Payment For		Total
		Principal Redeemed	Interest	
01-Jun-04			\$745,341.25	\$745,341.25
01-Dec-04			745,341.25	745,341.25
01-Jun-05			745,341.25	745,341.25
01-Dec-05			745,341.25	745,341.25
01-Jun-06			745,341.25	745,341.25
01-Dec-06			745,341.25	745,341.25
01-Jun-07			745,341.25	745,341.25
01-Dec-07			745,341.25	745,341.25
01-Jun-08			745,341.25	745,341.25
01-Dec-08			745,341.25	745,341.25
01-Jun-09	Various	\$25,125,000.00	745,341.25	25,870,341.25
		<u>\$25,125,000.00</u>	<u>\$8,198,753.75</u>	<u>\$33,323,753.75</u>

EXHIBIT B-1

CITY OF VANCOUVER, WASHINGTON
WATER AND SEWER REVENUE REFUNDING BONDS
SERIES 2004

DEBT SERVICE REQUIREMENTS FOR THE REFUNDED BONDS
ASSUMING NO OPTIONAL REDEMPTIONS PRIOR TO MATURITY
AS OF FEBRUARY 26, 2004

(FOR INFORMATIONAL PURPOSES ONLY)

Payment Date	Rate	Payment For		Total Debt Payment
		Principal	Interest	
01-Jun-04			\$745,341.25	\$745,341.25
01-Dec-04			745,341.25	745,341.25
01-Jun-05			745,341.25	745,341.25
01-Dec-05			745,341.25	745,341.25
01-Jun-06			745,341.25	745,341.25
01-Dec-06			745,341.25	745,341.25
01-Jun-07			745,341.25	745,341.25
01-Dec-07			745,341.25	745,341.25
01-Jun-08			745,341.25	745,341.25
01-Dec-08			745,341.25	745,341.25
01-Jun-09			745,341.25	745,341.25
01-Dec-09			745,341.25	745,341.25
01-Jun-10	5.500%	\$1,335,000.00	745,341.25	2,080,341.25
01-Dec-10			708,628.75	708,628.75
01-Jun-11	5.750%	1,405,000.00	708,628.75	2,113,628.75
01-Dec-11			668,235.00	668,235.00
01-Jun-12	5.750%	1,500,000.00	668,235.00	2,168,235.00
01-Dec-12			625,110.00	625,110.00
01-Jun-13	5.600%	720,000.00	625,110.00	1,345,110.00
01-Dec-13			604,950.00	604,950.00
01-Jun-14	6.000%	2,530,000.00	604,950.00	3,134,950.00
01-Dec-14			529,050.00	529,050.00
01-Jun-15	6.000%	2,695,000.00	529,050.00	3,224,050.00
01-Dec-15			448,200.00	448,200.00
01-Jun-16	6.000%	2,860,000.00	448,200.00	3,308,200.00
01-Dec-16			362,400.00	362,400.00
01-Jun-17	6.000%	2,170,000.00	362,400.00	2,532,400.00
01-Dec-17			297,300.00	297,300.00
01-Jun-18	6.000%	2,310,000.00	297,300.00	2,607,300.00
01-Dec-18			228,000.00	228,000.00
01-Jun-19	6.000%	3,685,000.00	228,000.00	3,913,000.00
01-Dec-19			117,450.00	117,450.00
01-Jun-20	6.000%	3,915,000.00	117,450.00	4,032,450.00
		<u>\$25,125,000.00</u>	<u>\$18,868,083.75</u>	<u>\$43,993,083.75</u>

EXHIBIT C
CITY OF VANCOUVER, WASHINGTON
WATER AND SEWER REVENUE REFUNDING BONDS
SERIES 2004

YIELD ON THE REFUNDING BONDS
AS OF FEBRUARY 26, 2004

Payment Date	Total Debt Payment (Exhibit C-1)	Present Value at February 26, 2004 Using a Semi-Annually Compounded Yield of 3.98301%
01-Jun-04	\$366,176.30	\$362,385.11
01-Dec-04	636,665.63	617,770.98
01-Jun-05	756,665.63	719,873.36
01-Dec-05	635,465.63	592,761.72
01-Jun-06	760,465.63	695,510.47
01-Dec-06	634,215.63	568,718.05
01-Jun-07	759,215.63	667,515.27
01-Dec-07	632,653.13	545,378.13
01-Jun-08	762,653.13	644,607.13
01-Dec-08	630,865.63	522,806.42
01-Jun-09	765,865.63	622,289.71
01-Dec-09	628,840.63	500,975.66
01-Jun-10	2,083,840.63	1,627,708.10
01-Dec-10	607,015.63	464,887.52
01-Jun-11	2,112,015.63	1,585,919.49
01-Dec-11	569,390.63	419,208.73
01-Jun-12	2,164,390.63	1,562,397.87
01-Dec-12	529,515.63	374,775.14
01-Jun-13	1,334,515.63	926,086.70
01-Dec-13	515,931.25	351,039.35
01-Jun-14	3,115,931.25	2,078,680.93
01-Dec-14	447,681.25	292,822.78
01-Jun-15	3,197,681.25	2,050,723.57
01-Dec-15	375,493.75	236,107.98
01-Jun-16	3,270,493.75	2,016,309.80
01-Dec-16	299,500.00	181,040.92
01-Jun-17	2,484,500.00	1,472,498.72
01-Dec-17	244,875.00	142,297.20
01-Jun-18	2,549,875.00	1,452,803.24
01-Dec-18	187,250.00	104,603.38
01-Jun-19	3,837,250.00	2,101,744.84
01-Dec-19	96,000.00	51,554.56
01-Jun-20	3,936,000.00	2,072,463.88
	<u>\$41,928,895.14</u>	<u>\$28,626,266.71</u>

Dated Date: 26-Feb-04
Delivery Date: 26-Feb-04

The above aggregate present value of the future
payments equals the following:

Par Value of the Issue	\$26,250,000.00
Net Original Issue Premium	2,513,374.20
Bond Insurance Premium	(137,107.49)
Proceeds on Delivery Date	<u>\$28,626,266.71</u>

**CITY OF VANCOUVER, WASHINGTON
WATER AND SEWER REVENUE REFUNDING BONDS
SERIES 2004**

**REFUNDING BOND DEBT SERVICE REQUIREMENTS AND PRODUCTION
AS OF FEBRUARY 26, 2004**

Payment Date	Rate	Payment For		Total Debt Payment	Reoffering Price	Original Issue	Total Production
		Principal	Interest			Premium/ (Discount)	
01-Jun-04	2.000%	\$30,000.00	\$336,176.30	\$366,176.30	100.222%	\$66.60	\$30,066.60
01-Dec-04			636,665.63	636,665.63			
01-Jun-05	2.000%	120,000.00	636,665.63	756,665.63	100.899%	1,078.80	121,078.80
01-Dec-05			635,465.63	635,465.63			
01-Jun-06	2.000%	125,000.00	635,465.63	760,465.63	100.840%	1,050.00	126,050.00
01-Dec-06			634,215.63	634,215.63			
01-Jun-07	2.500%	125,000.00	634,215.63	759,215.63	101.824%	2,280.00	127,280.00
01-Dec-07			632,653.13	632,653.13			
01-Jun-08	2.750%	130,000.00	632,653.13	762,653.13	101.897%	2,466.10	132,466.10
01-Dec-08			630,865.63	630,865.63			
01-Jun-09	3.000%	135,000.00	630,865.63	765,865.63	102.052%	2,770.20	137,770.20
01-Dec-09			628,840.63	628,840.63			
01-Jun-10	3.000%	1,455,000.00	628,840.63	2,083,840.63	100.909%	13,225.95	1,468,225.95
01-Dec-10			607,015.63	607,015.63			
01-Jun-11	5.000%	1,505,000.00	607,015.63	2,112,015.63	112.406%	186,710.30	1,691,710.30
01-Dec-11			569,390.63	569,390.63			
01-Jun-12	5.000%	1,595,000.00	569,390.63	2,164,390.63	112.049%	192,181.55	1,787,181.55
01-Dec-12			529,515.63	529,515.63			
01-Jun-13	3.375%	805,000.00	529,515.63	1,334,515.63	98.858%	(9,193.10)	795,806.90
01-Dec-13			515,931.25	515,931.25			
01-Jun-14	5.250%	2,600,000.00	515,931.25	3,115,931.25	113.222%	343,772.00	2,943,772.00
01-Dec-14			447,681.25	447,681.25			
01-Jun-15	5.250%	2,750,000.00	447,681.25	3,197,681.25	112.984%	357,060.00	3,107,060.00
01-Dec-15			375,493.75	375,493.75			
01-Jun-16	5.250%	2,895,000.00	375,493.75	3,270,493.75	112.741%	368,851.95	3,263,851.95
01-Dec-16			299,500.00	299,500.00			
01-Jun-17	5.000%	2,185,000.00	299,500.00	2,484,500.00	109.884%	215,965.40	2,400,965.40
01-Dec-17			244,875.00	244,875.00			
01-Jun-18	5.000%	2,305,000.00	244,875.00	2,549,875.00	109.301%	214,388.05	2,519,388.05
01-Dec-18			187,250.00	187,250.00			
01-Jun-19	5.000%	3,650,000.00	187,250.00	3,837,250.00	108.588%	313,462.00	3,963,462.00
01-Dec-19			96,000.00	96,000.00			
01-Jun-20	5.000%	3,840,000.00	96,000.00	3,936,000.00	108.001%	307,238.40	4,147,238.40
		<u>\$26,250,000.00</u>	<u>\$15,678,895.14</u>	<u>\$41,928,895.14</u>		<u>\$2,513,374.20</u>	<u>\$28,763,374.20</u>

EXHIBIT D**CITY OF VANCOUVER, WASHINGTON
WATER AND SEWER REVENUE REFUNDING BONDS
SERIES 2004****YIELD ON THE ESCROWED SECURITIES PURCHASED
WITH REFUNDING BOND PROCEEDS AND THE
DEBT SERVICE RESERVE FUND CONTRIBUTION
AS OF FEBRUARY 26, 2004**

Date	Cash Receipts from the U.S. Treasury Securities Purchased with Refunding Bond Proceeds and the DSRF Contribution (Exhibit A)	Present Value at February 26, 2004 Using a Semi-Annually Compounded Yield of 3.20426%
01-Jun-04	\$371,800.59	\$368,694.73
01-Dec-04	745,341.75	727,460.66
01-Jun-05	745,340.99	715,988.88
01-Dec-05	745,342.01	704,699.68
01-Jun-06	745,341.26	693,586.84
01-Dec-06	745,341.00	682,649.69
01-Jun-07	745,340.99	671,885.23
01-Dec-07	745,341.78	661,291.23
01-Jun-08	745,340.73	650,862.66
01-Dec-08	745,341.15	640,599.81
01-Jun-09	25,870,340.89	21,884,219.59
	<u>\$32,950,213.14</u>	<u>\$28,401,939.00</u>

Cost of Securities

\$28,401,939.00

EXHIBIT E

**CITY OF VANCOUVER, WASHINGTON
WATER AND SEWER REVENUE REFUNDING BONDS
SERIES 2004**

**SOURCES AND USES OF FUNDS
AS OF FEBRUARY 26, 2004**

Sources of Funds:

Par Value of Bonds	\$26,250,000.00
Net Original Issue Premium	2,513,374.20
Debt Service Fund Contribution	372,670.62
Debt Service Reserve Fund Contribution	44,782.83
Total Sources of Funds	<u>\$29,180,827.65</u>

Uses of Funds:

Beginning Escrow Account Cash Balance Funded with:	
Debt Service Fund Contribution	\$0.62
Refunding Bond Proceeds and the DSRF Contribution	100.56
Cost of the Escrowed Securities Purchased with:	
Debt Service Fund Contribution	372,670.00
Refunding Bond Proceeds and the DSRF Contribution	28,401,939.00
Bond Insurance Premium	137,107.49
Underwriter's Discount	177,187.50
Issuance Costs	89,050.00
Contingency	2,772.48
Total Uses of Funds	<u>\$29,180,827.65</u>

ESCROW DEPOSIT AGREEMENT
CITY OF VANCOUVER, WASHINGTON
WATER AND SEWER REVENUE REFUNDING BONDS, 2004

THIS ESCROW AGREEMENT, dated as of February 26, 2004 (herein, together with any amendments or supplements hereto, called the "Agreement") is entered into by and between the City of Vancouver, Washington (herein called the "City") and U.S. Bank National Association, Portland, Oregon as escrow agent (herein, together with any successor in such capacity, called the "Escrow Agent"). The notice addresses of the City and the Escrow Agent are shown on Exhibit A attached hereto and made a part hereof.

WITNESSETH:

WHEREAS, the City heretofore has issued and there presently remain outstanding the obligations described in Exhibit B attached hereto (the "Refunded Bonds"); and

WHEREAS, pursuant to Ordinance No. M-3644 adopted on February 2, 2004 (the "Bond Ordinance"), the City has determined to issue its Water and Sewer Revenue Refunding Bonds, 2004 (the "Bonds"); and

WHEREAS, the proceeds of the Bonds, together with a cash contribution from the City, are being used for the purpose of providing funds to pay the costs of refunding the Refunded Bonds; and

WHEREAS, the Escrow Agent has reviewed the Bond Ordinance and this Agreement, and is willing to serve as Escrow Agent hereunder; and

WHEREAS, Causey Demgen & Moore, Inc., Certified Public Accountants of Denver, Colorado has prepared a verification report which is dated February 26, 2004 (the "Verification Report") relating to the source and use of funds available to accomplish the refunding of the Refunded Bonds, the investment of such funds and the adequacy of such funds and investments to provide for the payment of the debt service due on the Refunded Bonds; and

WHEREAS, pursuant to the Bond Ordinance, the Refunded Bonds have been designated for redemption prior to their scheduled maturity dates and, after provision is made for such redemption, the Refunded Bonds will come due in such years, bear interest at such rates, and be payable at such times and in such amounts as are set forth in Exhibit C attached hereto and made a part hereof; and

WHEREAS, when Escrowed Securities have been deposited with the Escrow Agent for the payment of all principal and interest of the Refunded Bonds when due, then the Refunded Bonds shall no longer be regarded as outstanding except for the purpose of receiving payment from the funds provided for such purpose; and

WHEREAS, the issuance, sale, and delivery of the Bonds have been duly authorized to be issued, sold, and delivered for the purpose of obtaining the funds required to provide for the

payment of the principal of, interest on and redemption premium (if any) on the Refunded Bonds when due as shown on Exhibit C attached hereto; and

WHEREAS, the City desires that, concurrently with the delivery of the Bonds to the purchasers thereof, the proceeds of the Bonds, together with certain other available funds of the City, shall be applied to purchase certain obligations of the United States of America hereinafter defined as the "Escrowed Securities" for deposit to the credit of the Escrow Fund created pursuant to the terms of this Agreement and to establish a beginning cash balance (if needed) in such Escrow Fund; and

WHEREAS, the Escrowed Securities shall mature and the interest thereon shall be payable at such times and in such amounts so as to provide moneys which, together with cash balances from time to time on deposit in the Escrow Fund, will be sufficient to pay interest on the Refunded Bonds as it accrues and becomes payable and the principal of the Refunded Bonds as it becomes due and payable; and

WHEREAS, to facilitate the receipt and transfer of proceeds of the Escrowed Securities, particularly those in book entry form, the City desires to establish the Escrow Fund at the corporate trust office of the Escrow Agent in Portland, Oregon; and

WHEREAS, the Escrow Agent is a party to this Agreement to acknowledge its acceptance of the terms and provisions hereof;

NOW, THEREFORE, in consideration of the mutual undertakings, promises and agreements herein contained, the sufficiency of which hereby are acknowledged, and to secure the full and timely payment of principal of and the interest on the Refunded Bonds, the City and the Escrow Agent mutually undertake, promise and agree for themselves and their respective representatives and successors, as follows:

Article 1. Definitions

Section 1.1. Definitions.

Unless the context clearly indicates otherwise, the following terms shall have the meanings assigned to them below when they are used in this Agreement:

Escrow Fund means the fund created by this Agreement to be established, held and administered by the Escrow Agent pursuant to the provisions of this Agreement.

Escrowed Securities means the noncallable Government Obligations described in Exhibit D attached to this Agreement, or cash or other noncallable obligations substituted therefor pursuant to Section 4.2 of this Agreement.

Government Obligations means direct, noncallable (a) United States Treasury Obligations, (b) United States Treasury Obligations - State and Local Government Series, (c) non-prepayable obligations which are unconditionally guaranteed as to full and timely

payment of principal and interest by the United States of America or (d) REFCORP debt obligations unconditionally guaranteed by the United States.

Paying Agent means the fiscal agency of the State of Washington, as the paying agent for the Refunded Bonds.

Section 1.2. Other Definitions.

The terms "Agreement," "City," "Escrow Agent," "Bond Ordinance," "Verification Report," "Refunded Bonds," and "Bonds" when they are used in this Agreement, shall have the meanings assigned to them in the preamble to this Agreement.

Section 1.3. Interpretations.

The titles and headings of the articles and sections of this Agreement have been inserted for convenience and reference only and are not to be considered a part hereof and shall not in any way modify or restrict the terms hereof. This Agreement and all of the terms and provisions hereof shall be liberally construed to effectuate the purposes set forth herein and to achieve the intended purpose of providing for the refunding of the Refunded Bonds in accordance with applicable law.

Article 2. Deposit of Funds and Escrowed Securities

Section 2.1. Deposits in the Escrow Fund.

Concurrently with the sale and delivery of the Bonds the City shall deposit, or cause to be deposited, with the Escrow Agent, for deposit in the Escrow Fund, the funds (from the proceeds of the Bonds and a cash contribution by the City) sufficient to purchase the Escrowed Securities and pay costs of issuance described in Exhibit D attached hereto, and the Escrow Agent shall, upon the receipt thereof, acknowledge such receipt to the City in writing.

Article 3. Creation and Operation of Escrow Fund

Section 3.1. Escrow Fund.

The Escrow Agent has created on its books a special trust fund and irrevocable escrow to be known as the Refunding Account (the "Escrow Fund"). The Escrow Agent hereby agrees that upon receipt thereof it will deposit to the credit of the Escrow Fund the funds and the Escrowed Securities described in Exhibit D attached hereto and pay Costs of Issuance as described in Exhibit D. Such deposit, all proceeds therefrom, and all cash balances from time to time on deposit therein (a) shall be the property of the Escrow Fund, (b) shall be applied only in strict conformity with the terms and conditions of this Agreement, and (c) are hereby irrevocably pledged to the payment of the principal of and interest on the Refunded Bonds, which payment shall be made by timely transfers of such amounts at such times as are provided for in Section 3.2 hereof. When the final transfers have been made for the payment of such principal of and interest on the Refunded Bonds, any balance then remaining in the Escrow Fund shall be

transferred to the City, and the Escrow Agent shall thereupon be discharged from any further duties hereunder.

Section 3.2. Payment of Principal and Interest.

The Escrow Agent is hereby irrevocably instructed to transfer to the Paying Agent from the cash balances from time to time on deposit in the Escrow Fund, the amounts required to pay the principal of the Refunded Bonds at their respective redemption dates and interest thereon to such redemption dates in the amounts and at the times shown in Exhibit C attached hereto.

Section 3.3. Sufficiency of Escrow Fund.

The City represents that, based upon the information provided in the Verification Report, the successive receipts of the principal of and interest on the Escrowed Securities will assure that the cash balance on deposit from time to time in the Escrow Fund will be at all times sufficient to provide moneys for transfer to the Paying Agent at the times and in the amounts required to pay the interest on the Refunded Bonds as such interest comes due and the principal of the Refunded Bonds as the Refunded Bonds are paid on an optional redemption date prior to maturity, all as more fully set forth in Exhibit E attached hereto. If, for any reason, at any time, the cash balances on deposit or scheduled to be on deposit in the Escrow Fund shall be insufficient to transfer the amounts required by the Paying Agent to make the payments set forth in Section 3.2. hereof, the City shall timely deposit in the Escrow Fund, from any funds that are lawfully available therefor, additional funds in the amounts required to make such payments. Notice of any such insufficiency shall be given promptly as hereinafter provided, but the Escrow Agent shall not in any manner be responsible for any insufficiency of funds in the Escrow Fund or the City's failure to make additional deposits thereto.

Section 3.4. Trust Fund.

The Escrow Agent or its affiliate, shall hold at all times the Escrow Fund, the Escrowed Securities and all other assets of the Escrow Fund, wholly segregated from all other funds and securities on deposit with the Escrow Agent; it shall never allow the Escrowed Securities or any other assets of the Escrow Fund to be commingled with any other funds or securities of the Escrow Agent; and it shall hold and dispose of the assets of the Escrow Fund only as set forth herein. The Escrowed Securities and other assets of the Escrow Fund shall always be maintained by the Escrow Agent as trust funds for the benefit of the owners of the Refunded Bonds; and a special account thereof shall at all times be maintained on the books of the Escrow Agent. The owners of the Refunded Bonds shall be entitled to the same preferred claim and first lien upon the Escrowed Securities, the proceeds thereof, and all other assets of the Escrow Fund to which they are entitled as owners of the Refunded Bonds. The amounts received by the Escrow Agent under this Agreement shall not be considered as a banking deposit by the City, and the Escrow Agent shall have no right to title with respect thereto except as a trustee and Escrow Agent under the terms of this Agreement. The amounts received by the Escrow Agent under this Agreement shall not be subject to warrants, drafts or checks drawn by the City or, except to the extent expressly herein provided, by the Paying Agent.

Article 4. Limitation on Investments

Section 4.1. Investments.

Except for the initial investment in the Escrowed Securities, and except as provided in Section 4.2 hereof, the Escrow Agent shall not have any power or duty to invest or reinvest any money held hereunder, or to make substitutions of the Escrowed Securities, or to sell, transfer, or otherwise dispose of the Escrowed Securities.

Section 4.2. Substitution of Securities.

At the written request of the City, and upon compliance with the conditions hereinafter stated, the Escrow Agent shall utilize cash balances in the Escrow Fund, or sell, transfer, otherwise dispose of or request the redemption of the Escrowed Securities and apply the proceeds therefrom to purchase Refunded Bonds or Government Obligations which do not permit the redemption thereof at the option of the obligor. Any such transaction may be effected by the Escrow Agent only if (a) the Escrow Agent shall have received a written opinion from a firm of certified public accountants that such transaction will not cause the amount of money and securities in the Escrow Fund to be reduced below an amount sufficient to provide for the full and timely payment of principal of and interest on all of the remaining Refunded Bonds as they become due, taking into account any optional redemption thereof exercised by the City in connection with such transaction; and (b) the Escrow Agent shall have received the unqualified written legal opinion of the City's bond counsel or tax counsel to the effect that such transaction will not cause any of the Bonds or Refunded Bonds to be an "arbitrage bond" within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended.

Article 5. Application of Cash Balances

Section 5.1. In General.

Except as provided in Sections 2.1, 3.2 and 4.2 hereof, no withdrawals, transfers, or reinvestment shall be made of cash balances in the Escrow Fund. Cash balances shall be held by the Escrow Agent in United States currency as cash balances as shown on the books and records of the Escrow Agent and, except as provided herein, shall not be reinvested by the Escrow Agent; provided, however, a conversion to currency shall not be required (i) for so long as the Escrow Agent's internal rate of return does not exceed 20%, or (ii) if the Escrow Agent's internal rate of return exceeds 20%, the Escrow Agent receives a letter of instructions, accompanied by the opinion of nationally recognized bond counsel, approving the assumed reinvestment of such proceeds at such higher yield.

Article 6. Redemption of Refunded Bonds

Section 6.1. Call for Redemption.

The City hereby irrevocably calls the Refunded Bonds for redemption on their earliest redemption date, as shown in the Verification Report and on Appendix A-1 attached hereto.

Section 6.2. Notice of Redemption/Notice of Defeasance.

The Escrow Agent agrees to give a notice of defeasance and a notice of the redemption of the Refunded Bonds pursuant to the terms of the Refunded Bonds and in substantially the forms attached hereto as Appendices A-1 through A-2 attached hereto and as described on said Appendices A-1 through A-2 to the Paying Agent for distribution as described therein. The notice of defeasance shall be given immediately following the execution of this Agreement, and the notice of redemption shall be given in accordance with the ordinance authorizing the Refunded Bonds. The Escrow Agent hereby certifies that provision satisfactory and acceptable to the Escrow Agent has been made for the giving of notice of redemption of the Refunded Bonds.

Article 7. Records and Reports

Section 7.1. Records.

The Escrow Agent will keep books of record and account in which complete and accurate entries shall be made of all transactions relating to the receipts, disbursements, allocations and application of the money and Escrowed Securities deposited to the Escrow Fund and all proceeds thereof, and such books shall be available for inspection during business hours and after reasonable notice.

Section 7.2. Reports.

While this Agreement remains in effect, the Escrow Agent quarterly shall prepare and send to the City a written report summarizing all transactions relating to the Escrow Fund during the preceding financial quarter, including, without limitation, credits to the Escrow Fund as a result of interest payments on or maturities of the Escrowed Securities and transfers from the Escrow Fund for payments on the Refunded Bonds or otherwise, together with a detailed statement of all Escrowed Securities and the cash balance on deposit in the Escrow Fund as of the end of such period.

Article 8. Concerning the Paying Agents and Escrow Agent

Section 8.1. Representations.

The Escrow Agent hereby represents that it has all necessary power and authority to enter into this Agreement and undertake the obligations and responsibilities imposed upon it herein, and that it will carry out all of its obligations hereunder.

Section 8.2. Limitation on Liability.

The liability of the Escrow Agent to transfer funds for the payment of the principal of and interest on the Refunded Bonds shall be limited to the proceeds of the Escrowed Securities and the cash balances from time to time on deposit in the Escrow Fund. Notwithstanding any provision contained herein to the contrary, the Escrow Agent shall have no liability whatsoever for the insufficiency of funds from time to time in the Escrow Fund or any failure of the obligors

of the Escrowed Securities to make timely payment thereon, except for the obligation to notify the City promptly of any such occurrence.

The recitals herein and in the proceedings authorizing the Bonds shall be taken as the statements of the City and shall not be considered as made by, or imposing any obligation or liability upon, the Escrow Agent.

The Escrow Agent is not a party to the proceedings authorizing the Bonds or the Refunded Bonds and is not responsible for nor bound by any of the provisions thereof (except to the extent that the Escrow Agent may be a place of payment and paying agent and/or a paying agent/registrar therefor). In its capacity as Escrow Agent, it is agreed that the Escrow Agent need look only to the terms and provisions of this Agreement.

The Escrow Agent makes no representations as to the value, conditions or sufficiency of the Escrow Fund, or any part thereof, or as to the title of the City thereto, or as to the security afforded thereby or hereby, and the Escrow Agent shall not incur any liability or responsibility in respect to any of such matters.

It is the intention of the parties hereto that the Escrow Agent shall never be required to use or advance its own funds or otherwise incur personal financial liability in the performance of any of its duties or the exercise of any of its rights and powers hereunder.

The Escrow Agent shall not be liable for any action taken or neglected to be taken by it in good faith in any exercise of reasonable care and believed by it to be within the discretion or power conferred upon it by this Agreement, nor shall the Escrow Agent be responsible for the consequences of any error of judgment; and the Escrow Agent shall not be answerable except for its own neglect or willful misconduct, nor for any loss unless the same shall have been through its negligence or bad faith.

Unless it is specifically otherwise provided herein, the Escrow Agent has no duty to determine or inquire into the happening or occurrence of any event or contingency or the performance or failure of performance of the City with respect to arrangements or contracts with others, with the Escrow Agent's sole duty hereunder being to safeguard the Escrow Fund, to dispose of and deliver the same in accordance with this Agreement. If, however, the Escrow Agent is called upon by the terms of this Agreement to determine the occurrence of any event or contingency, the Escrow Agent shall be obligated, in making such determination, only to exercise reasonable care and diligence, and in event of error in making such determination the Escrow Agent shall be liable only for its own willful misconduct or its negligence. In determining the occurrence of any such event or contingency the Escrow Agent may request from the City or any other person such reasonable additional evidence as the Escrow Agent in its discretion may deem necessary to determine any fact relating to the occurrence of such event or contingency, and in this connection may make inquiries of, and consult with, among others, the City at any time.

Section 8.3. Compensation.

The City shall pay to the Escrow Agent fees for performing the services hereunder and for the expenses incurred or to be incurred by the Escrow Agent in the administration of this Agreement pursuant to the terms of the Fee Schedule attached hereto as Appendix B. The Escrow Agent hereby agrees that in no event shall it ever assert any claim or lien against the Escrow Fund for any fees for its services, whether regular or extraordinary, as Escrow Agent, or in any other capacity, or for reimbursement for any of its expenses as Escrow Agent or in any other capacity.

Section 8.4. Successor Escrow Agents.

Any corporation, association or other entity into which the Escrow Agent may be converted or merged, or with which it may be consolidated, or to which it may sell or otherwise transfer all or substantially all of its corporate trust assets and business or any corporation, association or other entity resulting from any such conversion, sale, merger, consolidation or other transfer to which it is a party, *ipso facto*, shall be and become successor escrow agent hereunder, vested with all other matters as was its predecessor, without the execution or filing of any instrument or any further act on the part of the parties hereto, notwithstanding anything herein to the contrary.

If at any time the Escrow Agent or its legal successor or successors should become unable, through operation or law or otherwise, to act as escrow agent hereunder, or if its property and affairs shall be taken under the control of any state or federal court or administrative body because of insolvency or bankruptcy or for any other reason, a vacancy shall forthwith exist in the office of Escrow Agent hereunder. In such event the City, by appropriate action, promptly shall appoint an Escrow Agent to fill such vacancy. If no successor Escrow Agent shall have been appointed by the City within 60 days, a successor may be appointed by the owners of a majority in principal amount of the Refunded Bonds then outstanding by an instrument or instruments in writing filed with the City, signed by such owners or by their duly authorized attorneys-in-fact. If, in a proper case, no appointment of a successor Escrow Agent shall be made pursuant to the foregoing provisions of this section within three months after a vacancy shall have occurred, the owner of any Refunded Bond may apply to any court of competent jurisdiction to appoint a successor Escrow Agent. Such court may thereupon, after such notice, if any, as it may deem proper, prescribe and appoint a successor Escrow Agent.

Any successor Escrow Agent shall be a corporation organized and doing business under the laws of the United States or the State of Washington, authorized under such laws to exercise corporate trust powers, having its principal office and place of business in the State of Washington, having a combined capital and surplus of at least \$50,000,000 and subject to the supervision or examination by federal or state authority.

Any successor Escrow Agent shall execute, acknowledge and deliver to the City and the Escrow Agent an instrument accepting such appointment hereunder, and the Escrow Agent shall execute and deliver an instrument transferring to such successor Escrow Agent, subject to the terms of this Agreement, all the rights, powers and trusts of the Escrow Agent hereunder. Upon the request of any such successor Escrow Agent, the City shall execute any and all instruments in

writing for more fully and certainly vesting in and confirming to such successor Escrow Agent all such rights, powers and duties.

The obligations assumed by the Escrow Agent pursuant to this Agreement may be transferred by the Escrow Agent to a successor Escrow Agent if (a) the requirements of this Section 8.4 are satisfied; (b) the successor Escrow Agent has assumed all the obligations of the Escrow Agent under this Agreement; and (c) all of the Escrowed Securities and money held by the Escrow Agent pursuant to this Agreement have been duly transferred to such successor Escrow Agent.

Article 9. Miscellaneous

Section 9.1. Notice.

Any notice, authorization, request, or demand required or permitted to be given hereunder shall be in writing and shall be deemed to have been duly given when mailed by registered or certified mail, postage prepaid addressed to the City or the Escrow Agent at the address shown on Exhibit A attached hereto. The United States Post Office registered or certified mail receipt showing delivery of the aforesaid shall be conclusive evidence of the date and fact of delivery. Any party hereto may change the address to which notices are to be delivered by giving to the other parties not less than ten days prior notice thereof.

Section 9.2. Termination of Responsibilities.

Upon the taking of all the actions as described herein by the Escrow Agent, the Escrow Agent shall have no further obligations or responsibilities hereunder to the City, the owners of the Refunded Bonds or to any other person or persons in connection with this Agreement.

Section 9.3. Binding Agreement.

This Agreement shall be binding upon the City and the Escrow Agent and their respective successors and legal representatives, and shall inure solely to the benefit of the owners of the Refunded Bonds, the City, the Escrow Agent and their respective successors and legal representatives.

Section 9.4. Severability.

In case any one or more of the provisions contained in this Agreement shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions of this Agreement, but this Agreement shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein.

Section 9.5. Washington Law Governs.

This Agreement shall be governed exclusively by the provisions hereof and by the applicable laws of the State of Washington.

Section 9.6. Time of the Essence.

Time shall be of the essence in the performance of obligations from time to time imposed upon the Escrow Agent by this Agreement.

Section 9.7. Amendments.

This Agreement shall not be amended except to cure any ambiguity or formal defect or omission in this Agreement. No amendment shall be effective unless the same shall be in writing and signed by the parties thereto. No such amendment shall adversely affect the rights of the holders of the Refunded Bonds. No such amendment shall be made without first receiving written confirmation from the rating agencies, (if any) which have rated the Refunded Bonds that such administrative changes will not result in a withdrawal or reduction of its rating then assigned to the Refunded Bonds. If this Agreement is amended, prior written notice and copies of the proposed changes shall be given to the rating agencies which have rated the Refunded Bonds.

EXECUTED as of the date first written above.

**CITY OF VANCOUVER,
WASHINGTON**



Treasurer

**U.S. BANK NATIONAL
ASSOCIATION, PORTLAND,
OREGON**

as Authorized Signer

Exhibit A	—	Addresses of the City and the Escrow Agent
Exhibit B	—	Description of the Refunded Bonds
Exhibit C	—	Schedule of Debt Service on Refunded Bonds
Exhibit D	—	Description of Beginning Cash Deposit (if any) and Escrowed Securities
Exhibit E	—	Escrow Fund Cash Flow
Appendix A-1	—	Notice of Redemption for the 1999 Bonds
Appendix A-2	—	Notice of Defeasance for the 1999 Bonds
Appendix B	—	Fee Schedule

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EXECUTED as of the date first written above.

**CITY OF VANCOUVER,
WASHINGTON**

Treasurer

**U.S. BANK NATIONAL
ASSOCIATION, PORTLAND,
OREGON**

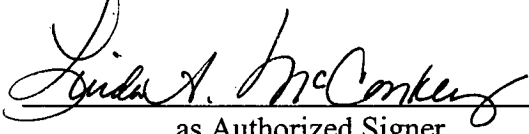

as Authorized Signer

Exhibit A	—	Addresses of the City and the Escrow Agent
Exhibit B	—	Description of the Refunded Bonds
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Exhibit D	—	Description of Beginning Cash Deposit (if any) and Escrowed Securities
Exhibit E	—	Escrow Fund Cash Flow
Appendix A-1	—	Notice of Redemption for the 1999 Bonds
Appendix A-2	—	Notice of Defeasance for the 1999 Bonds
Appendix B	—	Fee Schedule

EXHIBIT A
Addresses of the City and Escrow Agent

City: City of Vancouver
610 Esther Street
P.O. Box 1995
Vancouver, WA 98668-1995
Attention: Treasurer

Escrow Agent: U.S. Bank National Association
555 S.W. Oak Street, PL6
Portland, OR 97204
Attention: Linda McConkey

EXHIBIT B

Description of the Refunded Bonds

City of Vancouver, Washington Water and Sewer Revenue Bonds, Series 1999

Maturity Years (June 1)	Principal Amounts	Interest Rates
2010	\$ 1,335,000	5.50%
2011	1,405,000	5.75
2012	1,500,000	5.75
2013	720,000	5.60
2014	2,530,000	6.00
2015	2,695,000	6.00
2020	14,940,000	6.00

EXHIBIT C
Schedule of Debt Service on the Refunded Bonds

Date	Interest	Principal/ Redemption Price	Total
06/01/2004	\$ 745,341.25	--	\$ 745,341.25
12/01/2004	745,341.25	--	745,341.25
06/01/2005	745,341.25	--	745,341.25
12/01/2005	745,341.25	--	745,341.25
06/01/2006	745,341.25	--	745,341.25
12/01/2006	745,341.25	--	745,341.25
06/01/2007	745,341.25	--	745,341.25
12/01/2007	745,341.25	--	745,341.25
06/01/2008	745,341.25	--	745,341.25
12/01/2008	745,341.25	--	745,341.25
06/01/2009	<u>745,341.25</u>	<u>\$25,125,000.00</u>	<u>25,870,341.25</u>
	<u>\$ 8,198,753.75</u>	<u>\$25,125,000.00</u>	<u>\$33,323,753.75</u>

EXHIBIT D
Escrow Deposit

I. Cash \$101.18

II. Other Obligations

Description	Maturity Date	Principal Amount	Interest Rate	Total Cost
SLG-Cert.	06/01/2004	\$ 139,318	0.89%	\$ 139,318.00
SLG-Cert.	12/01/2004	300,342	1.07	300,342.00
SLG-Note	06/01/2005	302,791	1.36	302,791.00
SLG-Note	12/01/2005	304,851	1.68	304,851.00
SLG-Note	06/01/2006	307,411	1.95	307,411.00
SLG-Note	12/01/2006	310,408	2.21	310,408.00
SLG-Note	06/01/2007	313,838	2.46	313,838.00
SLG-Note	12/01/2007	317,699	2.69	317,699.00
SLG-Note	06/01/2008	321,971	2.90	321,971.00
SLG-Note	12/01/2008	326,640	3.08	326,640.00
SLG-Note	06/01/2009	<u>25,456,670</u>	3.25	<u>25,456,670.00</u>
		<u>\$ 28,401,939</u>		<u>\$ 28,401,939.00</u>

Money from Debt Service Fund

Description	Maturity Date	Principal Amount	Interest Rate	Total Cost
SLG-Cert.	06/01/2004	\$ <u>372,670</u>	0.89%	\$ <u>372,670.00</u>
		<u>\$ 372,670</u>		<u>\$ 372,670.00</u>

III. Costs of Issuance

Escrow Verification Fee (Causey, Demgen and Moore)	\$ 2,800.00
Bond Counsel Fee (Preston Gates & Ellis)	\$ 40,000.00
Escrow Agent Fee (U.S. Bank National Association)	\$ 3,000.00
Moody's Rating Fee	\$ 10,250.00
S&P's Rating Fee	\$ 16,000.00
Printing of POS/OS (Reischling Press Inc.)	\$ 1,250.00
Posting of POS/OS (I-Deal)	\$ 1,000.00
Underwriter's Counsel Fee (Gottlieb, Fisher & Andrews) ..	\$ <u>15,000.00</u>
TOTAL	\$ <u>89,300.00</u>

EXHIBIT E
Escrow Fund Cash Flow

Date	Escrow Requirement	Net Escrow Receipts	Excess Receipts	Cash Balance
02/26/2004	\$ --	\$ 101.18	\$ 101.18	\$ 101.18
06/01/2004	745,341.25	745,340.51	(0.74)	100.44
12/01/2004	745,341.25	745,341.65	0.40	100.84
06/01/2005	745,341.25	745,340.91	(0.34)	100.50
12/01/2005	745,341.25	745,341.94	0.69	101.19
06/01/2006	745,341.25	745,341.20	(0.05)	101.14
12/01/2006	745,341.25	745,340.95	(0.30)	100.84
06/01/2007	745,341.25	745,340.95	(0.30)	100.54
12/01/2007	745,341.25	745,341.75	0.50	101.04
06/01/2008	745,341.25	745,340.70	(0.55)	100.49
12/01/2008	745,341.25	745,341.13	(0.12)	100.37
06/01/2009	<u>25,870,341.25</u>	<u>25,870,340.88</u>	<u>(0.37)</u>	100.00
	\$ 33,323,753.75	\$ 33,323,853.75	\$ 100.00	

APPENDIX A-1

NOTICE OF REDEMPTION*

City of Vancouver, Washington Water and Sewer Revenue Bonds, Series 1999

NOTICE IS HEREBY GIVEN that the City of Vancouver, Washington has called for redemption on June 1, 2009, its outstanding Water and Sewer Revenue Bonds, Series 1999 (the "Bonds").

The Bonds will be redeemed at a price of one hundred percent (100%) of their principal amount, plus interest accrued to June 1, 2009. The redemption price of the Bonds is payable on presentation and surrender of the Bonds at the office of:

The Bank of New York
Fiscal Agency Department
Ground Floor
101 Barclay Street
7 East
New York, NY 10286

-or-

Wells Fargo Bank National
Association
Corporate Trust Department
14th Floor - M/S 257
999 Third Avenue
Seattle, WA 98104

Interest on all Bonds or portions thereof which are redeemed shall cease to accrue on June 1, 2009.

The following Bonds are being redeemed:

Maturity Years (June 1)	Principal Amounts	Interest Rates	CUSIP Nos.
2010	\$ 1,335,000	5.50%	921645NQ6
2011	1,405,000	5.75	921645NR4
2012	1,500,000	5.75	921645NS2
2013	720,000	5.60	921645NT0
2014	2,530,000	6.00	921645NU7
2015	2,695,000	6.00	921645NV5
2020	14,940,000	6.00	921645PA9

By Order of the City of Vancouver, Washington

The Bank of New York, as Paying Agent

* This notice shall be given not more than 60 nor less than 30 days prior to June 1, 2009 by first class mail to each registered owner of the Refunded Bonds. In addition notice shall be mailed at least 35 days prior to June 1, 2009 to The Depository Trust Company, New York, New York; The Depository Trust Company of New York, New York; Piper Jaffray & Co., Seattle, Washington; Moody's Investors Service and Standard & Poor's.

Dated: _____.

Under the Interest and Dividend Tax Compliance Act of 1983, payor may be required to withhold 30% of the redemption price from any Bondowner who fails to provide to payor and certify under penalties of perjury, a correct taxpayer identifying number (employer identification number or social security number, as appropriate) or an exemption certificate on or before the date the Bonds are presented for payment. Bondowners who wish to avoid the application of these provisions should submit a completed Form W-9 when presenting their Bonds.

APPENDIX A-2*

NOTICE OF DEFEASANCE

City of Vancouver, Washington Water and Sewer Revenue Bonds, Series 1999

NOTICE IS HEREBY GIVEN to the owners of that portion of the above captioned bonds with respect to which, pursuant to an Escrow Agreement dated February 26, 2004, by and between City of Vancouver, Washington (the "City") and U.S. Bank National Association, Portland, Oregon (the "Escrow Agent"), the City has deposited into an escrow account, held by the Escrow Agent, cash and obligations of the United States of America, the principal of and interest on which, when due, will provide money to pay each year, to and including the respective maturity or redemption dates of such bonds so provided for, the principal thereof and interest thereon (the "Defeased Bonds"). Such Defeased Bonds are therefore deemed to be no longer outstanding pursuant to Ordinance No. M-3463 of the City authorizing the Defeased Bonds, but will be paid by application of the assets in such escrow.

The Defeased Bonds are described as follows:

City of Vancouver, Washington Water and Sewer Revenue Bonds, Series 1999.

(Dated November 1, 1999)

Maturity Years (June 1)	Principal Amounts	Interest Rates	CUSIP Nos.	Call Date (100%)
2010	\$ 1,335,000	5.50%	921645NQ6	06/01/2009
2011	1,405,000	5.75	921645NR4	06/01/2009
2012	1,500,000	5.75	921645NS2	06/01/2009
2013	720,000	5.60	921645NT0	06/01/2009
2014	2,530,000	6.00	921645NU7	06/01/2009
2015	2,695,000	6.00	921645NV5	06/01/2009
2020	14,940,000	6.00	921645PA9	06/01/2009

* This notice shall be given immediately by first class mail to each registered owner of the Defeased Bonds. In addition notice shall be mailed to The Depository Trust Company of New York, New York; The Bank of New York, as Fiscal Agent; Moody's Investors Service, New York, New York; and Standard & Poor's Ratings Services, a Division of the McGraw-Hill Companies, Inc., New York, New York, to the MSRB and to the NRMSIRs.

APPENDIX B
Fee Schedule

Escrow Agent Fee: \$3,000.00

AUTHORIZED SIGNER(S)

I hereby certify that the following is a true and exact extract of Article VI of the Bylaws presently in effect for U.S. Bank National Association, an association organized and existing under the laws of the United States:

**ARTICLE VI.
CONVEYANCES, CONTRACTS, ETC.**

All transfers and conveyances of real estate, mortgages, and transfers, endorsements or assignments of stock, bonds, notes, debentures or other negotiable instruments, securities or personal property shall be signed by any elected or appointed officer.

All checks, drafts, certificates of deposit and all funds of the Association held in its own or in a fiduciary capacity may be paid out by an order, draft or check bearing the manual or facsimile signature of any elected or appointed officer of the Association.

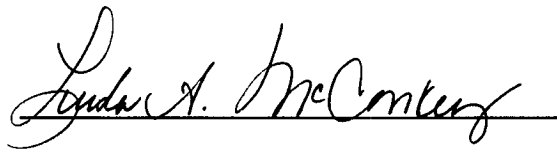
All mortgage satisfactions, releases, all types of loan agreements, all routine transactional documents of the Association, and all other instruments not specifically provided for, whether to be executed in a fiduciary capacity or otherwise, may be signed on behalf of the Association by any elected or appointed officer thereof.

The Secretary or any Assistant Secretary of the Association or other proper officer may execute and certify that required action or authority has been given or has taken place by resolution of the Board under this Bylaw without the necessity of further action by the Board.

I further certify that Linda A. McConkey of U.S. Bank National Association, has been duly elected and qualified and now holds the office listed herein, and that the signature of such officer is authentic:

Linda A. McConkey
Vice President

WILL SIGN:

A handwritten signature in black ink, appearing to read "Linda A. McConkey", written over a horizontal line.

IN WITNESS WHEREOF, I have hereunto set my hand to be affixed hereto this 26th day of February, 2004.

U.S. Bank National Association
By: Cheryl Nelson

A handwritten signature in black ink, appearing to read "Cheryl Nelson", written over a horizontal line. Below the signature, the words "Vice President" are printed.



Comptroller of the Currency
Administrator of National Banks

Washington, D.C. 20219

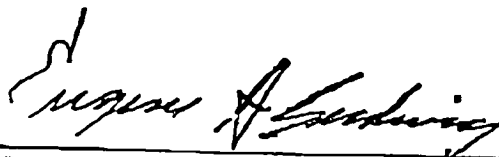
CERTIFICATE

I, Eugene A. Ludwig, Comptroller of the Currency, do hereby certify that:

1. The Comptroller of the Currency, pursuant to Revised Statutes 324, et seq., as amended, 12 U.S.C. 1, et seq., as amended, has possession, custody and control of all records pertaining to the chartering of all National Banking Associations.
2. "U. S. Bank National Association," Minneapolis, Minnesota, (Charter No. 13405) is a National Banking Association formed under the laws of the United States and is authorized thereunder to transact the business of banking and exercise Fiduciary Powers on the date of this Certificate.

IN TESTIMONY WHEREOF, I have hereunto
subscribed my name and caused my seal of
office to be affixed to these presents at the
Treasury Department in the City of Washington
and District of Columbia, this 25th day of
August, 1997.




Comptroller of the Currency

CITY OF VANCOUVER, WASHINGTON
(THE "CITY")
WATER AND SEWER REVENUE REFUNDING BONDS, 2004
(THE "BONDS")

CERTIFICATE OF ESCROW AGENT

The undersigned, on behalf of U.S. Bank National Association, Portland, Oregon (the "Escrow Agent"), DO HEREBY CERTIFY, as follows:

1. On this date, the Escrow Agent established an Escrow Fund pursuant to the Escrow Deposit Agreement.

2. On this date, the Escrow Agent received the aggregate amount of \$28,864,010.18 ("Total Receipts") (28,446,556.73 from Piper Jaffray & Co., Seattle, Washington, as Underwriter and \$417,453.45 from the City).

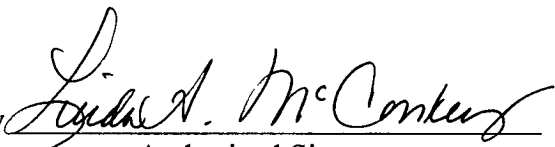
3. The Total Receipts have been deposited into the Escrow Fund for distribution as follows:

- (a) \$28,774,609.00 for Acquired Obligations;
- (b) \$101.18 as an initial cash deposit; and
- (c) \$89,300.00 for costs of issuance (as described on Exhibit D to the Escrow Deposit Agreement).

Capitalized terms in this certificate that are not otherwise defined have the meanings given such terms in the Bond Ordinance.

DATED this 26th day of February, 2004.

U.S. BANK NATIONAL ASSOCIATION,
PORTLAND, OREGON

By 
Authorized Signer

ARBITRAGE AND TAX CERTIFICATION

\$26,250,000

CITY OF VANCOUVER, WASHINGTON WATER AND SEWER REVENUE REFUNDING BONDS, 2004

THIS ARBITRAGE AND TAX CERTIFICATION is made and dated February 26, 2004 by the **CITY OF VANCOUVER, WASHINGTON** (the "City") in accordance with the provisions of Section 1.148-2(b)(2) of the Income Tax Regulations to establish the facts and circumstances that form the basis for the City's reasonable expectation that the bonds referred to in the caption (the "Bonds") are not "arbitrage bonds" within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended (the "Code"), and is referred to hereinafter as the "Tax Certificate."

WHEREAS, the City has authorized the issuance of the Bonds in Ordinance No. M-3644 adopted by the City on February 2, 2004 (the "Ordinance"); and

WHEREAS, the Ordinance provides for the Gross Proceeds of the Bonds to be applied for the purposes stated in the Ordinance which are incorporated by reference; and

WHEREAS, the undersigned is the officer of the City delegated with the responsibility for issuing the Bonds and certifying the City's expectations regarding the amount and use of the Gross Proceeds of the Bonds.

ARTICLE ONE DEFINITIONS

In addition to the words defined in the preamble to this Tax Certificate, the following words and phrases shall have the meanings set forth in this Article. Any capitalized word or term used herein but not defined herein shall have the same meaning given in the Ordinance.

Bond Year means, in reference to the Bonds, each one-year period that ends on the day selected by the City. The first and last Bond Years may be short periods. If no day is selected by the City before the earlier of the final maturity date of the Bonds or the date that is five years after February 26, 2004, Bond Years end on each anniversary of the Date of Issue and on the final maturity date.

Commingled Fund means any fund or account containing both Gross Proceeds and amounts in excess of \$25,000 that are not Gross Proceeds if the amounts in the fund or account are invested and accounted for collectively and without regard to the source of funds deposited in the fund or account.

Date of Issue means, for the Bonds, February 26, 2004.

Discharge means the date that all amounts due under the terms of a bond are actually and unconditionally due if cash is available at the place of payment and no interest accrues with respect to the bond after such date.

Gross Proceeds means any Sale Proceeds and Replacement Proceeds of the Bonds.

Investment means any security, obligation, annuity contract and investment-type property and any tax-exempt obligation that is a specified private activity bond as defined in Section 57(a)(5)(C) of the Code. Investment-type property is property held primarily for the production of income.

Issue Price means, in the case of publicly offered bonds, the first price at which 10% of the Bonds is sold to the public. The public does not include bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters or wholesalers. The Issue Price of bonds that are not substantially identical is determined separately. The Issue Price of bonds for which a bona fide public offering is made is determined as of the date the Bonds are sold as stated in the Underwriter Representations based upon reasonable expectations regarding the initial public offering price.

Materially Higher Yield Investment means investments having a yield more than one-eighth of one percentage point above the Bond yield except that the investment yield for any Replacement Proceeds is materially higher if it is more than one-thousandth of one percent above the Bond yield. If an investment is a tax-exempt obligation, but is not investment property, there is no yield limitation.

Plain Par Investment means an investment that is an obligation: (1) issued with not more than a *de minimis* amount of original issue discount or premium, and if acquired on a date other than the issue date, acquired with not more than a *de minimis* amount of market discount or premium; (2) issued for a price that does not include accrued interest other than Pre-Issuance Accrued Interest; (3) that bears interest from the date of its issuance at a single, stated, fixed rate or that is a variable rate debt investment under Section 1275 of the Code, in each case with interest unconditionally payable at least annually; and (4) having a lowest stated redemption price that is not less than its outstanding stated principal amount.

Pre-Issuance Accrued Interest means amounts representing interest that accrued on an obligation for a period not greater than one year before its issue date but only if those amounts are paid within one year after the issue date.

Refunded 1999 Bonds means a portion of the City's Water and Sewer Revenue Bonds, 1999 maturing on and after June 1, 2010.

Refunding Account means the Refunding Account established pursuant to Section 15 of the Ordinance.

Related Party means, in reference to a governmental unit or 501 (c)(3) organization, any member of the same controlled group, and in reference to any person that is not a governmental unit or a 501 (c)(3) organization, a person who is related to another person if (1) the relationship between such persons would result in a disallowance of losses under Section 267 of the Code (relating to disallowance of loss between related taxpayers) and Section 707(b) of the Code (relating to losses disallowed between partners and controlled partnerships) and the Regulations thereunder, or (2) such persons are members of the same controlled group of corporations, as

defined in Section 1563(a) of the Code, relating to the definition of a controlled group of corporations (except that "more than 50%" shall be substituted for "at least 80%" each place it appears in Section 1563(a) of the Code and the Regulations thereunder).

Replacement Proceeds means any amounts that have a sufficiently direct nexus to the Bonds or to the governmental purposes of the Bonds to conclude that the amounts would have been used for that governmental purpose if the proceeds of the Bonds were not used for that purpose. Replacement Proceeds include, but are not limited to, sinking funds, pledged funds and other amounts that have a nexus to the governmental purposes of the Bonds to the extent that these funds or amounts are held by or derived from a substantial beneficiary of the Bonds. Replacement Proceeds also include amounts that arise to the extent that the City reasonably expects as of February 26, 2004 that the term of the Bonds will be longer than is reasonably necessary for the governmental purposes of the Bonds and there will be available amounts during the period that the Bonds remain outstanding longer than necessary.

Reserve Account means any account created in the Bond Fund (as defined in the Ordinance) to secure the payment of the principal of and interest on any Parity Bonds (as defined in the Ordinance), including the common Reserve Account maintained pursuant to Section 7 of the Ordinance.

Sale Proceeds means any amounts actually or automatically received from the sale of the Bonds including amounts used to pay underwriter's discount or compensation.

ARTICLE TWO SOURCES AND USES OF PROCEEDS

Section 1. Determination of Sale Proceeds and Net Sale Proceeds.

The Sale Proceeds and Net Sale Proceeds actually or constructively received by the City from sale of the Bonds to Piper Jaffray & Co. are as follows:

Face Amount of Bonds	\$ 26,250,000.00
Bond Premium	\$ 2,513,374.20
Sale Proceeds of Bonds	\$ 28,763,374.20

There is no direct monetary benefit, such as a rebate of bond insurance premium, surety bond premium or letter of credit fee, being received by the City in connection with the issuance of the Bonds.

Section 2. Allocation of Sale Proceeds.

The Sale Proceeds will be allocated as follows:

Qualified Guarantee Fee(s)	\$ 137,107.49
Underwriter's Discount	\$ 177,187.50
Costs of Issuance	\$ 89,300.00
Refunding Account	\$ 28,357,256.73
Contingency	\$ 2,522.48

Section 3. Replacement Proceeds.

Except as otherwise described in this Tax Certificate, there are no sinking funds, pledged funds or other amounts that have a nexus to the purposes of the Bonds and which are expected to be held by or derived from a substantial beneficiary of the Bonds.

Section 4. Term of Bonds and Sale or Disposition of Property.

The term of the Bonds is not longer than is reasonably necessary for the purposes described in the Ordinance. The Net Sale Proceeds of the Bonds are not substantially in excess of the amounts necessary to accomplish the purposes for which the Bonds are issued.

**ARTICLE THREE
REFUNDING REPRESENTATIONS**

Section 1. Description of Advance Refunding.

The City has entered into an Escrow Agreement dated as of February 26, 2004 (the "Escrow Agreement") with U.S. Bank National Association, Portland, Oregon (the "Escrow Agent"). Sale Proceeds of the Bonds in the amount of \$28,357,256.73 will be deposited with the Escrow Agent in the Refunding Account to advance refund the City's Refunded 1999 Bonds maturing on and after June 1, 2010 in the aggregate principal amount of \$25,125,000 (such maturities referred to as the "Refunded 1999 Bonds") and to discharge the Refunded 1999 Bonds on June 1, 2009 (which is the earliest date on which the Refunded 1999 Bonds may be redeemed) at par.

The Bonds are being issued to provide a present value debt service savings of approximately \$1,594,901.29. The issuance of the Bonds will be the only advance refunding permitted of the Refunded 1999 Bonds.

Section 2. Transferred Proceeds.

Any money allocated to the Debt Service Fund with respect to the Refunded 1999 Bonds will be allocated to the Debt Service Fund for the Bonds and expended within 13 months of the date of receipt. This amount will be allocated to purchase State and Local Government Securities due before June 1, 2004 and will not become transferred proceeds of the Bonds. There

is \$44,782.83 allocated to the Reserve Account with respect to the Refunded 1999 Bonds and which amount will be treated as transferred proceeds of the Bond.

Section 3. General Refunding Representations.

(a) No proceeds or amounts treated as proceeds of the Refunded 1999 Bonds will be invested for a temporary period following February 26, 2004.

(b) In accordance with the Escrow Agreement, the Refunded 1999 Bonds will be retired at a time no later than the date the Refunded 1999 Bonds were expected to have been retired, had the Bonds not been issued for the purpose of refunding the Refunded 1999 Bonds.

(c) The City has not employed any device in connection with the issuance of the Bonds to obtain a material financial advantage (based upon arbitrage) apart from savings attributable to lower interest rates.

(d) No tax-exempt obligations will be allocated to the credit of the Refunding Account.

Section 4. Mixed Escrow.

(a) Money has been allocated to the Refunding Account from the following sources:

Sale Proceeds	\$28,357,256.73
Transfers from Prior Issue Debt Service Funds	\$372,670.62
Transfers from Prior Issue Debt Service Reserve Fund	\$44,782.83

(b) Except for amounts allocated from the Refunded Bonds Debt Service Funds, the Sale Proceeds of the Bonds and the other amounts that are not Sale Proceeds of the Bonds have been allocated to expenditures for principal and interest payments on the Refunded Bonds so that the expenditure of the Sale Proceeds does not occur faster than ratably with expenditures of the amounts that are not Sale Proceeds allocated to the Refunding Account.

Section 5. Waiver of Temporary Investment Periods and Minor Portion.

With respect to Sale Proceeds of the Bonds deposited in the Refunding Account, the City waives the temporary investment periods described in Section 1.148-9(d) of the Income Tax Regulations. The City waives the minor portion described in Section 1.148-2(g) of the Income Tax Regulations.

Section 6. Refunding Account Yield Computation.

The composite yield of the State and Local Government Book Entry Securities allocated to the Refunding Account has been determined to be no greater than 3.2042512%.

Determinations of yield have been made by Piper Jaffray & Co. and have been verified by the independent accountants whose opinion is incorporated herein by reference.

ARTICLE FOUR REVENUE FUND

Section 1. Description of Revenue Fund.

The Revenue Fund was created by Section 4 of Ordinance No. M-93 of the City. Money other than Gross Proceeds of the Bonds will be allocated to the credit of the Revenue Fund and applied as described in the Ordinance, which description is incorporated herein by reference.

Section 2. Revenue Fund Not Replacement Proceeds.

The Revenue Fund may be expended for purposes other than payment of the principal and interest on the Bonds. Until allocated from the Revenue Fund to the Debt Service Fund, the City has no reasonable expectation that money allocated to the credit of the Revenue Fund will be available to be used, directly or indirectly, to pay principal and interest requirements on the Bonds.

ARTICLE FIVE DEBT SERVICE FUND

Section 1. General Qualification.

The Debt Service Fund is to be used primarily to achieve a proper matching of revenues with principal and interest requirements on the Bonds within each Bond Year and will be completely depleted at least once each Bond Year except for a reasonable carryover amount that will not exceed the greater of (a) the earnings on the Debt Service Fund for the immediately preceding Bond Year, or (b) one-twelfth of the principal and interest payments on the Bonds for the immediately preceding Bond Year.

Section 2. Arbitrage Rebate Treatment.

The average maturity of the Bonds is at least five years and the Bonds have a fixed rate of interest (by application of Section 1.148-4 of the Income Tax Regulations) that does not vary over their term. The City will exclude earnings on the money allocated to the Debt Service Fund from the calculation of arbitrage rebate.

ARTICLE SIX RESERVE ACCOUNT

Section 1. Creation of Reserve Account.

The Ordinance describes the Reserve Account as a fund which provides security for the payment of debt service on the Bonds and requires that it be funded and maintained at specific levels. Money will be available in the Reserve Account to pay debt service on the Bonds.

Section 2. General Funding Requirements.

No Sale Proceeds of the Bonds will be allocated to the credit of the Reserve Account. The Reserve Account is a "sinking fund" and amounts deposited therein are Replacement Proceeds of the Bonds. The funding requirements of the Reserve Account will be satisfied by the surety policies of Financial Guaranty Insurance Company and MBIA Insurance Corporation.

Section 3. Reserve Account Size Limitations.

The amount of Gross Proceeds allocated to the credit of the Reserve Accounts in the manner provided in Section 1.148-6(e)(6) of the Income Tax Regulations and invested in Materially Higher Yield Investments will at no time exceed the smallest of (a) 10% of the stated principal amount of the Bonds, (b) maximum annual principal and interest requirements on the Bonds or (c) 125% of the average annual principal and interest requirements of the Bonds.

Section 4. Underwriter Representations.

Piper Jaffray & Co. has represented that the provisions and funding of the Reserve Account as required by the Ordinance is reasonable and will facilitate marketing of the Bonds at the most favorable interest rates available.

ARTICLE SEVEN INVESTMENT LIMITATIONS

Section 1. Debt Service Fund.

Money allocated to the credit of the Debt Service Fund will not be invested in Materially Higher Yield Investments for a period that exceeds 13 months from the date such money is deposited therein.

Section 2. Revenue Fund.

Money allocated to the credit of the Revenue Fund may be invested in Materially Higher Yield Investments.

Section 3. Reserve Account.

Money allocated (in accordance with the provisions of Section 1.148-6(e)(6) of the Income Tax Regulations) to the credit of the Reserve Account for the Bonds (and investment earnings on such money retained therein) will be invested in Materially Higher Yield Investments only so long as the amount so invested does not exceed the smallest of:

- (a) 10% of the Issue Price of the Bonds,
- (b) an amount equal to maximum annual principal and interest requirements on the Bonds,

(c) an amount equal to 125% of average annual principal and interest requirements on the Bonds.

ARTICLE EIGHT QUALIFIED GUARANTEE

Section 1. Credit Enhancement.

The principal of and interest on the Bonds are secured pursuant to the terms of a bond insurance policy (the "Credit Enhancement") of Financial Guaranty Insurance Company ("FGIC" or the "Bond Insurer").

Section 2. Interest Savings Representation.

As of February 26, 2004, the City reasonably expects that the present value of the fees for the Credit Enhancement will be less than the present value of the expected interest savings on the Bonds as a result of the Credit Enhancement.

Section 3. Special Requirements.

(a) **Guarantee in Substance.** The Credit Enhancement imposes a secondary liability on FGIC that unconditionally shifts substantially all of the ultimate credit risk for all or part of the payments for principal and interest, redemption prices, or tender prices, on the Bonds. The Credit Enhancement does not make FGIC a co-obligor on the Bonds nor will FGIC (or any related person to FGIC) use more than 10% of the proceeds of the Bonds.

(b) **Fees Reasonable.** The fees paid for the Credit Enhancement do not exceed a reasonable, arm's-length charge for the transfer of credit risk.

(c) **Other Services.** The fees paid for the Credit Enhancement do not include any payment for any direct or indirect services other than the transfer of credit risk.

Section 4. Treatment of Credit Enhancement Fees.

The fees paid for the Credit Enhancement for the Bonds will be treated as additional interest on the Bonds and will be allocated to the Bonds in a manner that properly reflects the proportionate credit risk for which FGIC is being compensated.

ARTICLE NINE DETERMINATION OF BOND YIELD

The yield on the Bonds is used to apply the investment yield restrictions described in this Tax Certificate and to compute arbitrage rebate liability, if any. The Bonds are treated as fixed rate bonds and the yield on the Bonds has been computed to be 3.9830132% by application of the economic accrual method required by Section 1.148-4(a) of the Income Tax Regulations. The yield on the Bonds is the discount rate that, when used in computing the present value as of February 26, 2004 of all unconditionally payable payments of principal, interest, and fees for

qualified guarantees, if any, to be made on the Bonds, produces an amount equal to the present value of the aggregate Issue Price of the Bonds.

ARTICLE TEN ADVANCE REFUNDING ARBITRAGE REBATE

The investments in the Refunding Account have a composite yield that is less than the yield on the Bonds. The City does not expect to be required to make arbitrage rebate computations or payments to the United States.

ARTICLE ELEVEN FEDERAL GUARANTEE PROHIBITION

The City will not take any action or fail to take any action if the result of such action or failure to act will cause the Bonds to become "federally guaranteed" Unless otherwise excepted under Section 149(b)(3) of the Code, the Bonds will be considered "federally guaranteed" if (a) the payment of principal and interest with respect to the Bonds is guaranteed (in whole or in part) by the United States (or any agency or instrumentality thereof), (b) five percent or more of the proceeds of the Bonds are (1) to be used in making loans, the payment of principal or interest with respect to which are to be guaranteed (in whole or in part) by the United States (or any agency or instrumentality thereof) or (2) to be invested (directly or indirectly) in federally insured deposits or accounts or (c) the payment of principal of or interest on the Bonds is otherwise indirectly guaranteed (in whole or in part) by the United States (or any agency or instrumentality thereof).

ARTICLE TWELVE GENERAL REPRESENTATIONS

Section 1. Other Obligations.

There are no other obligations of the City that have (a) sale dates within 14 days of the sale date of the Bonds, (b) are sold pursuant to the same plan of financing together with the Bonds, and (c) are reasonably expected to be paid out of substantially the same source of funds (or will have substantially the same claim to be paid out of substantially the same source of funds) as the Bonds. For purposes of this Section 1, the sale date of a bond is the first day on which there is a binding contract in writing for the sale or exchange of the bond.

Section 2. Computations and Representations.

The City is not aware of any facts or circumstances that would cause it to question the accuracy of the computations or representations described herein.

Section 3. No Other Funds or Accounts.

Other than the funds and accounts described in this Tax Certificate, there are no other funds, accounts or money of the City held pursuant to the Ordinance or otherwise, which are reasonably expected to be Replacement Proceeds of the Bonds.

Section 4. Abusive Transactions.

No portion of the proceeds of the Bonds will be used as a substitute for other funds which will otherwise be used to acquire, directly or indirectly, securities, obligations, annuity contracts or other investment type property that are Materially Higher Yield Investments.

CITY OF VANCOUVER, WASHINGTON

By: _____
Treasurer

K:\24961\00032\AR1\KAR1\KO20A7

UNDERWRITER REPRESENTATIONS

\$26,250,000

CITY OF VANCOUVER, WASHINGTON WATER AND SEWER REVENUE REFUNDING BONDS, 2004

The undersigned hereby certifies as follows with respect to the bonds described above (the "Bonds"):

1. The undersigned is the underwriter (the "Purchaser") that has purchased the Bonds from the City.

2. The City sold the Bonds to the Purchaser in the manner and on the date specified in the Purchase Contract (the "Sale Date").

3. The issue price for each maturity of the Bonds is set forth in the Official Statement for the Bonds. The issue price is the lesser of (i) the price at which at least ten percent of the Bonds of such maturity was in fact sold to the public on the Sale Date or was reasonably expected as of the Sale Date to be sold to the public or (ii) the fair market value of the Bonds as of the Sale Date.

4. For purposes of this certificate, we have assumed the following"

(a) The term "public," as used herein, means persons other than bond houses, brokers, dealers and similar persons or organizations acting in the capacity of underwriters or wholesalers.

(b) The issue price of a maturity of the Bonds does not change if part of the Bonds within such maturity are later sold at a different price.


5. The funding of the Reserve Account as described in the Tax Certificate is reasonably required to market the Bonds at the most favorable interest rates available.

6. The credit enhancement was obtained as the result of an arm's length transaction and the fees paid for the credit enhancement represent a reasonable charge for credit risk. The present value of such fees is less than the present value of the aggregate interest reasonably expected to be saved on the Bonds as a result of such credit enhancement.

The Purchaser understands that the statements made herein will be relied upon by the City in its effort to comply with the conditions imposed by the Internal Revenue Code of 1986, as amended, on the exemption of interest on the Bonds from the gross income of their owners.

DATED: February 26, 2004.

PIPER JAFFRAY & CO.

By: 
Title: Managing Director

City of Vancouver, Washington

Water & Sewer Revenue Refunding Bonds, 2004

Refunding 1999 WS Bonds

Non-Callable Structure

Proof Of Bond Yield @ 3.9830132%

Date	Cashflow	PV Factor	Present Value	Cumulative PV
02/26/2004	-	1.0000000x	-	-
06/01/2004	366,176.30	0.9896465x	362,385.11	362,385.11
12/01/2004	636,665.63	0.9703225x	617,770.98	980,156.09
06/01/2005	756,665.63	0.9513758x	719,873.36	1,700,029.45
12/01/2005	635,465.63	0.9327990x	592,761.72	2,292,791.17
06/01/2006	760,465.63	0.9145850x	695,510.47	2,988,301.64
12/01/2006	634,215.63	0.8967266x	568,718.05	3,557,019.69
06/01/2007	759,215.63	0.8792170x	667,515.27	4,224,534.96
12/01/2007	632,653.13	0.8620492x	545,378.13	4,769,913.09
06/01/2008	762,653.13	0.8452167x	644,607.13	5,414,520.22
12/01/2008	630,865.63	0.8287128x	522,806.42	5,937,326.64
06/01/2009	765,865.63	0.8125312x	622,289.71	6,559,616.35
12/01/2009	628,840.63	0.7966655x	500,975.66	7,060,592.00
06/01/2010	2,083,840.63	0.7811097x	1,627,708.10	8,688,300.10
12/01/2010	607,015.63	0.7658576x	464,887.52	9,153,187.62
06/01/2011	2,112,015.63	0.7509033x	1,585,919.49	10,739,107.11
12/01/2011	569,390.63	0.7362410x	419,208.73	11,158,315.84
06/01/2012	2,164,390.63	0.7218650x	1,562,397.87	12,720,713.71
12/01/2012	529,515.63	0.7077697x	374,775.14	13,095,488.85
06/01/2013	1,334,515.63	0.6939497x	926,086.69	14,021,575.55
12/01/2013	515,931.25	0.6803995x	351,039.35	14,372,614.90
06/01/2014	3,115,931.25	0.6671139x	2,078,680.93	16,451,295.83
12/01/2014	447,681.25	0.6540877x	292,822.78	16,744,118.62
06/01/2015	3,197,681.25	0.6413158x	2,050,723.57	18,794,842.18
12/01/2015	375,493.75	0.6287934x	236,107.98	19,030,950.16
06/01/2016	3,270,493.75	0.6165154x	2,016,309.80	21,047,259.96
12/01/2016	299,500.00	0.6044772x	181,040.92	21,228,300.88
06/01/2017	2,484,500.00	0.5926741x	1,472,498.71	22,700,799.60
12/01/2017	244,875.00	0.5811014x	142,297.20	22,843,096.80
06/01/2018	2,549,875.00	0.5697547x	1,452,803.24	24,295,900.04
12/01/2018	187,250.00	0.5586295x	104,603.38	24,400,503.42
06/01/2019	3,837,250.00	0.5477216x	2,101,744.84	26,502,248.26
12/01/2019	96,000.00	0.5370267x	51,554.56	26,553,802.83
06/01/2020	3,936,000.00	0.5265406x	2,072,463.88	28,626,266.71
Total	\$41,928,895.14	-	\$28,626,266.71	-

Derivation Of Target Amount

Par Amount of Bonds	\$26,250,000.00
Reoffering Premium or (Discount)	2,513,374.20
Bond Insurance Premium..... (32.7 bp)	(137,107.49)
Original Issue Proceeds	\$28,626,266.71

City of Vancouver, Washington

Water & Sewer Revenue Refunding Bonds, 2004

Refunding 1999 WS Bonds

Non-Callable Structure

Debt Service Schedule

Part 1 of 2

Date	Principal	Coupon	Interest	Total P+I
06/01/2004	30,000.00	2.000%	336,176.30	366,176.30
12/01/2004	-	-	636,665.63	636,665.63
06/01/2005	120,000.00	2.000%	636,665.63	756,665.63
12/01/2005	-	-	635,465.63	635,465.63
06/01/2006	125,000.00	2.000%	635,465.63	760,465.63
12/01/2006	-	-	634,215.63	634,215.63
06/01/2007	125,000.00	2.500%	634,215.63	759,215.63
12/01/2007	-	-	632,653.13	632,653.13
06/01/2008	130,000.00	2.750%	632,653.13	762,653.13
12/01/2008	-	-	630,865.63	630,865.63
06/01/2009	135,000.00	3.000%	630,865.63	765,865.63
12/01/2009	-	-	628,840.63	628,840.63
06/01/2010	1,455,000.00	3.000%	628,840.63	2,083,840.63
12/01/2010	-	-	607,015.63	607,015.63
06/01/2011	1,505,000.00	5.000%	607,015.63	2,112,015.63
12/01/2011	-	-	569,390.63	569,390.63
06/01/2012	1,595,000.00	5.000%	569,390.63	2,164,390.63
12/01/2012	-	-	529,515.63	529,515.63
06/01/2013	805,000.00	3.375%	529,515.63	1,334,515.63
12/01/2013	-	-	515,931.25	515,931.25
06/01/2014	2,600,000.00	5.250%	515,931.25	3,115,931.25
12/01/2014	-	-	447,681.25	447,681.25
06/01/2015	2,750,000.00	5.250%	447,681.25	3,197,681.25
12/01/2015	-	-	375,493.75	375,493.75
06/01/2016	2,895,000.00	5.250%	375,493.75	3,270,493.75
12/01/2016	-	-	299,500.00	299,500.00
06/01/2017	2,185,000.00	5.000%	299,500.00	2,484,500.00
12/01/2017	-	-	244,875.00	244,875.00
06/01/2018	2,305,000.00	5.000%	244,875.00	2,549,875.00
12/01/2018	-	-	187,250.00	187,250.00
06/01/2019	3,650,000.00	5.000%	187,250.00	3,837,250.00
12/01/2019	-	-	96,000.00	96,000.00
06/01/2020	3,840,000.00	5.000%	96,000.00	3,936,000.00
Total	\$26,250,000.00	-	\$15,678,895.14	\$41,928,895.14

City of Vancouver, Washington

Water & Sewer Revenue Refunding Bonds, 2004

Refunding 1999 WS Bonds

Non-Callable Structure

Debt Service Schedule

Part 2 of 2

Yield Statistics

Bond Year Dollars	\$315,992.08
Average Life	12.038 Years
Average Coupon	4.9618000%
Net Interest Cost (NIC)	4.2224819%
True Interest Cost (TIC)	3.9984308%
Bond Yield for Arbitrage Purposes	3.9830132%
All Inclusive Cost (AIC)	4.0859565%

IRS Form 8038

Net Interest Cost	3.7968508%
Weighted Average Maturity	12.055 Years



Moody's Investors Service

*99 Church Street
New York, New York 10007*

February 25, 2004

Financial Guaranty Insurance Company
125 Park Avenue, 5th Floor
New York, New York 10017

To Whom It May Concern:

Moody's Investors Service has assigned the rating of **Aaa** (Financial Guaranty Insurance Company Insured - Policy No. 04010068) to the **\$26,250,000.00 , City of Vancouver, Washington—Water and Sewer Revenue Refunding Bonds, 2004 ,** dated February 26, 2004 which sold through negotiation on February 4, 2004. The rating is based upon an insurance policy provided by Financial Guaranty Insurance Company.

Should you have any questions regarding the above, please do not hesitate to contact the assigned analyst, Margaret Kessler at (212) 553-7884.

Sincerely yours,

Margaret Kessler

Margaret L. Kessler
Vice President/Senior Analyst

MK:SY

From: Higgins, Christopher [Christopher.J.Higgins@pjc.com]
Sent: Tuesday, February 03, 2004 2:51 PM
To: 'Lewellen, Carrie'; 'Lewis, Paul'; 'Weed, Cynthia'
Cc: Sundberg, Greg; Schober, Richard
Subject: FW: Vancouver (City of) WA

Moody's Rating Report....

~ please note my new e-mail address below ~

Christopher Higgins
Associate
Piper Jaffray
Fixed Income Investment Banking
P: 206-287-8845
F: 206-287-8895
Christopher.J.Higgins@pjc.com

-----Original Message-----

From: Moody's Investors Service [mailto:epi@moodys.com]
Sent: Tuesday, February 03, 2004 2:36 PM
To: Higgins, Christopher
Subject: Vancouver (City of) WA

MOODY'S ASSIGNS A1 UNDERLYING RATING TO VANCOUVER WATER AND SEWER REFUNDING BONDS

APPROXIMATELY \$144 MILLION IN WATER AND SEWER REVENUE DEBT AFFECTED

Vancouver (City of) WA
Water/Sewer
Washington

Moody's Rating

Issue	Underlying Rating	Rating
Water & Sewer Revenue Refunding Bonds, 2004	A1	Aaa
Sale Amount	\$26,720,000	
Expected Sale Date	02/04/04	
Rating Description	Water & Sewer Revenue	

NEW YORK, February 3, 2004 -- Moody's has assigned an A1 underlying rating to the Vancouver Water and Sewer Revenue Refunding Bonds, 2004 in the amount of approximately \$26.3 million. In addition, Moody's affirms the A1 rating on the city's outstanding \$144 million in water and sewer revenue bonds. The current offering refunds a portion of the city's 1999 water and sewer revenue bonds for debt service savings. The bonds are secured by the combined net revenues of the city's water and sewer enterprises. FGIC is expected to insure these bonds. Subject to Moody's review of the insurance policy and other relevant

documentation, the bonds are expected to carry FGIC's current financial strength rating of Aaa. The A1 underlying rating is primarily based on the system's growing service area, manageable debt levels despite a significant amount of outstanding debt, and sound financial performance.

GROWING SERVICE AREA

The system serves the City of Vancouver (Issuer Rating Aa3) and its service area has increased substantially in recent years. A significant portion of eastern Clark County previously served by the system as an out-of-city service

area was annexed into the city in the late 1990s. The previous out-of-city customers were initially converted to lower in-city rates, resulting in an approximate 25% revenue reduction for this portion of the customer base. However, the overall growth of the service area and recent increases in in-city rates have offset such losses and generated overall revenue growth during the transition. The system's mostly residential service area has also experienced healthy growth among its industrial customers as a variety of manufacturing and high technology firms locate in the area. Despite the recent

downturn and layoffs in the technology sector, revenue from the system's largest sewer customer, SEH America, remains relatively stable.

SOUND FINANCIAL PERFORMANCE

Annual debt service coverage has averaged approximately 2.4 times since 1994.

Net revenues provided 2.2 times coverage of both annual and peak debt service

in 2002. Estimated fiscal 2003 results indicate 1.9 times coverage, although Moody's notes this estimate is rather conservative in that interest earnings and other non-operating revenues are not included. To maintain sound financial

operations, the city implemented 9% annual rate increases in 1998 and 1999.

As

a result of a rate study conducted in 2001, which indicated subsidization of the sewer system by water rates, the city expects to maintain water rates at the current level and has implemented 10% annual sewer rate increases through

2004, followed by increases of 11.2% in 2005 and 2005, then a more modest 3.6%

in 2007.

Because of the high rate of growth in the service area, system development charges (SDCs) have historically represented a significant portion (about 28%)

of net revenues. Officials increased these charges in 2001 to \$1,716 for water

and \$1,999 for sewer. While connection fees will continue to play a significant role in meeting comfortable debt service coverage, they are expected to represent a declining share of net revenues as customer growth levels off. Debt service coverage net of SDCs remains satisfactory, however, with annual debt service coverage by fiscal 2002 net revenues of 1.6 times and

peak debt service coverage of 1.7 times.

The city's policy is to maintain a minimum of 60 days of cash reserves in

each

operating fund although this policy is typically exceeded as officials have maintained a healthy level of reserves in the system with net working capital, primarily comprised of cash, of over 110% of gross revenue. In fiscal 2002 the system's operating ratio of 63.2% was only slightly higher than the Moody's median of 63.9% for combined water and sewer systems.

SLIGHTLY ABOVE AVERAGE DEBT RATIO DESPITE SIGNIFICANT OUTSTANDING DEBT;
SATISFACTORY LEGAL PROVISIONS

The current offering refunds a portion of the city's 1999 water and sewer revenue bonds for debt service savings. The bonds are secured by net revenues of the city's water and sewer enterprises. Rapid service area growth in the 1990s created a need to expand system capacity, primarily for sewage treatment facilities. The city therefore issued a significant amount between 1993 and 1999 for a total outstanding par amount of about \$144 million. Despite this amount of outstanding debt, the system's debt ratio in fiscal 2002 of 33.5% is only slightly above the Moody's median of 31.6% for combined water and sewer systems. Future capital plans total \$32.9 million through 2006, although officials anticipate financing these projects on a pay-as-you-go basis from system revenues.

Legal provisions are standard including a 1.3 times rate covenant and maximum annual debt service reserve requirement with an allowance for a five-year build-up. The additional bonds test is also 1.3 times. Also, the city has established a policy of setting rates to achieve a minimum of 1.65 times coverage of annual debt service.

KEY STATISTICS

Current estimated population: 148,000

1999 per capita income: \$20,192 (87.9% of state)

1999 median family income: \$47,696 (88.7% of state)

Number of accounts, 2002:

Water: 61,705

Sewer: 48,699

Operating ratio, 2002: 63.2%

Net working capital as a % of gross revenue, 2002: 132.0% (\$79.9 million)

Debt service coverage, 2002: 2.2x

Peak debt service coverage, 2002: 2.2x

Debt service coverage net of SDCs, 2002: 1.6x

Peak debt service coverage net of SDCs, 2002: 1.7x

Debt ratio, 2002: 33.5%

Payout of principal (10 years): 64.4%

ANALYSTS:

Patrick Ford, Analyst, Public Finance Group, Moody's Investors Service
Matthew Jones, Backup Analyst, Public Finance Group, Moody's Investors Service

CONTACTS:

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Research Clients: (212) 553-1653

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February 23, 2004

Financial Guaranty Insurance Co.
125 Park Avenue, 5th Floor
New York, NY 10017
Attention: Ms. Cheryl Whaley, Group Leader

Re: \$26,250,000 City of Vancouver, Washington Water and Sewer Revenue Refunding Bonds, 2004, dated: February 26, 2004, due: June 1, 2004-2020, (POLICY #04010068)

Dear Ms. Whaley:

Standard & Poor's has reviewed the rating on the above-referenced obligations. After such review, we have changed the rating to "AAA" from "A+". The rating reflects our assessment of the likelihood of repayment of principal and interest based on the bond insurance policy your company is providing. Therefore, rating adjustments may result from changes in the financial position of your company or from alterations in the documents governing the issue.

The rating is not investment, financial, or other advice and you should not and cannot rely upon the rating as such. The rating is based on information supplied to us by you but does not represent an audit. We undertake no duty of due diligence or independent verification of any information. The assignment of a rating does not create a fiduciary relationship between us and you or between us and other recipients of the rating. We have not consented to and will not consent to being named an "expert" under the applicable securities laws, including without limitation, Section 7 of the Securities Act of 1933. The rating is not a "market rating" nor is it a recommendation to buy, hold, or sell the obligations.

This letter constitutes Standard & Poor's permission to you to disseminate the above-assigned rating to interested parties. Standard & Poor's reserves the right to inform its own clients, subscribers, and the public of the rating.

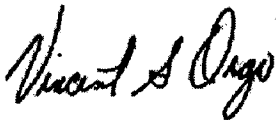
Standard & Poor's relies on the issuer and its counsel, accountants, and other experts for the accuracy and completeness of the information submitted in connection with the rating. This rating is based on financial information and documents we received prior to the issuance of this letter. Standard & Poor's assumes that the documents you have provided to us are final. If any subsequent changes were made in the final documents, you must notify us of such changes by sending us the revised final documents with the changes clearly marked.

Ms. Cheryl Whaley
Page 2
February 23, 2004

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Sincerely yours,

Standard & Poor's Ratings Services
a division of The McGraw-Hill Companies, Inc.

A handwritten signature in black ink, reading "Vincent S. Orgo". The signature is written in a cursive style with a large, stylized "V" and "O".

By: Vincent S. Orgo
Administrative Officer

ms

STANDARD & POOR'S

Steven J. Murphy
Managing Director
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February 4, 2004

City of Vancouver
210 East 13th Street
P.O. Box 1995
Vancouver, WA 98668-1995
Attention: Mr. Paul Lewis, Manager, Financial & Management Services

Re: *US\$26,720,000 Vancouver, Washington, Water Revenue Refunding Bonds, dated: Date of Delivery, due: June 1, 2020*

Dear Mr. Lewis:

Pursuant to your request for a Standard & Poor's rating on the above-referenced obligations, we have reviewed the information submitted to us and, subject to the enclosed *Terms and Conditions*, have assigned a rating of "A+". Standard & Poor's views the outlook for this rating as stable. A copy of the rationale supporting the rating is enclosed.

The rating is not investment, financial, or other advice and you should not and cannot rely upon the rating as such. The rating is based on information supplied to us by you or by your agents but does not represent an audit. We undertake no duty of due diligence or independent verification of any information. The assignment of a rating does not create a fiduciary relationship between us and you or between us and other recipients of the rating. We have not consented to and will not consent to being named an "expert" under the applicable securities laws, including without limitation, Section 7 of the Securities Act of 1933. The rating is not a "market rating" nor is it a recommendation to buy, hold, or sell the obligations.

This letter constitutes Standard & Poor's permission to you to disseminate the above-assigned rating to interested parties. Standard & Poor's reserves the right to inform its own clients, subscribers, and the public of the rating.

Standard & Poor's relies on the issuer/obligor and its counsel, accountants, and other experts for the accuracy and completeness of the information submitted in connection with the rating. This rating is based on financial information and documents we received prior to the issuance of this letter. Standard & Poor's assumes that the documents you have provided to us are final. If any subsequent changes were made in the final documents, you must notify us of such changes by sending us the revised final documents with the changes clearly marked.

To maintain the rating, Standard & Poor's must receive all relevant financial information as soon as such information is available. Placing us on a distribution list for this information would

Mr. Paul Lewis
Page 2
February 4, 2004

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Please send all information to:

Standard & Poor's Ratings Services
Public Finance Department
55 Water Street
New York, NY 10041-0003

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Sincerely yours,

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cc: Mr. Chris Higgins
Mr. Richard A. Schober, Jr.

STANDARD & POOR'S

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Scope of Rating. The issuer/obligor understands and agrees that (i) an issuer rating reflects Standard & Poor's current opinion of the issuer/obligor's overall financial capacity to pay its financial obligations as they come due, (ii) an issue rating reflects Standard & Poor's current opinion of the likelihood that the issuer/obligor will make payments of principal and interest on a timely basis in accordance with the terms of the obligation, (iii) a rating is an opinion and is not a verifiable statement of fact, (iv) ratings are based on information supplied to Standard & Poor's by the issuer/obligor or by its agents and upon other information obtained by Standard & Poor's from other sources it considers reliable, (v) Standard & Poor's does not perform an audit in connection with any rating and a rating does not represent an audit by Standard & Poor's, (vi) Standard & Poor's relies on the issuer/obligor, its accountants, counsel, and other experts for the accuracy and completeness of the information submitted in connection with the rating and surveillance process, (vii) Standard & Poor's undertakes no duty of due diligence or independent verification of any information, (viii) Standard & Poor's does not and cannot guarantee the accuracy, completeness, or timeliness of the information relied on in connection with a rating or the results obtained from the use of such information, (ix) Standard & Poor's may raise, lower, suspend, place on CreditWatch, or withdraw a rating at any time, in Standard & Poor's sole discretion, and (x) a rating is not a "market" rating nor a recommendation to buy, hold, or sell any financial obligation.

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Third Parties. Nothing in this Agreement, or the rating when issued, is intended or should be construed as creating any rights on behalf of any third parties, including, without limitation, any recipient of the rating. No person is intended as a third party beneficiary to this Agreement or to the rating when issued.

Binding Effect. This Agreement shall be binding on, and inure to the benefit of, the parties hereto and their successors and assigns.

Severability. In the event that any term or provision of this Agreement shall be held to be invalid, void, or unenforceable, then the remainder of this Agreement shall not be affected, impaired, or invalidated, and each such term and provision shall be valid and enforceable to the fullest extent permitted by law.

Complete Agreement. This Agreement constitutes the complete agreement between the parties with respect to its subject matter. This Agreement may not be modified except in a writing signed by authorized representatives of both parties.

Governing Law. This Agreement and the rating letter shall be governed by the internal laws of the State of New York. The parties agree that the state and federal courts of New York shall be the exclusive forums for any dispute arising out of this Agreement and the parties hereby consent to the personal jurisdiction of such courts.

Publication date: 04-Feb-2004
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Vancouver, Washington; Utility, Water/Sewer

Credit Analysts: Robert Williams, San Francisco 415-371-5070; Gabriel Petek, San Francisco (1) 415-371-5042

Credit Profile

US\$26.72 mil wtr rev rfdg bonds due
06/01/2020

A+

Sale date: 04-FEB-2004

AFFIRMED

\$13.885 mil Vancouver wtr & swr

A+

\$27.085 mil Vancouver wtr & swr rev rfdg
bonds ser 1999 dtd 10/01/1999 due 06/01/2002-
2036

AAA/A+(SPUR)

\$11.310 mil Vancouver wtr & swr rev rfdg
bonds ser 2002 dtd 11/15/2002 due
06/01/2004-2008

AA+/A+(SPUR)

\$55.595 mil Vancouver wtr & swr rev ser
1997

AA+/A+(SPUR)

\$33.075 mil Vancouver wtr and swr rev
bonds ser 1999 dtd 11/01/1999 due
06/01/2003-2016/2020

AAA/A+(SPUR)

OUTLOOK

STABLE

Rationale

The 'A+' rating on Vancouver, Wash.'s water and sewer bonds, including its 2004 water and sewer refunding bonds, reflects:

- Strong financial performance and policies, supporting strong coverage of debt service on the bonds;
- Good operations with considerable excess water supply and treatment capacity;
- A diverse, although currently slow, local economy with gradually improving wealth levels tempered by high unemployment that has steadily risen during the current recession;
- Currently affordable overall rates for water and sewer services; and
- A need to implement sizable rate increases for the sewer system, which is currently subsidized by the water system operations.

The bonds are secured by net revenues of the city's water and sewer system, and proceeds from the 2004 bonds will be used to advance refund and defease a portion of the city's outstanding 1999 water and sewer revenue debt.

Financial performance of the city's water and wastewater system has been strong, with current coverage of proposed maximum future debt service, after the current refunding, at 2.21x in fiscal 2002 and a still-solid 1.65x after deducting one-time connection fees. The city has a policy of maintaining at least 1.65x coverage of annual debt service, including connection fees. The system has good financial flexibility, with \$79.6 million in unrestricted cash and investments as of the 2002 audit report, equivalent to 830 days of operating expenditures. The city's official cash policy is to maintain balances equivalent to 60 days of operating expenses.

The city water and sewer system has a \$41.9 million capital plan for 2003-2008 with the bulk of the program, or roughly \$30.4 million, projected through 2004. The city had planned, however, for acquisition of land and construction of phase one of a new water well field in 2003 and 2004, which was to account for approximately \$12 million of the water portion of the capital improvement plan (CIP). At present, this project has been delayed, with capital outlay related to this project moved further out into the CIP. The addition of the well field will provide water system redundancy for the city and will secure water supply capacity through projected build-out. Through 2004, the city has the financing for \$15 million of capital needs in place from a combination of previously issued bond proceeds as well as cash balances. The remaining expenditures will be financed from planned rate increases on a pay-as-you-go basis.

Outlook

The stable outlook reflects the expectation that city will continue setting appropriate rates in order to maintain strong coverage of annual debt service requirements. In addition, the outlook reflects the expectation of continued strong financial performance as Vancouver manages continuing population growth in the service area.

Operations

The city, which is growing by about 2.5% annually from in-migration, currently has a population of about 148,800. Vancouver provides water and sewer services to primarily residential customers (95%) inside and outside of city boundaries for a total customer base of 216,800. The total service area is 69 square miles, of which 44 square miles are within city limits. The city currently has ample water supply of 84.6 million gallons per day (mgd) versus a peak demand of 53 mgd. Current water supply is projected to be adequate through 2010. Currently, the water system includes 866 miles of distribution pipe, five elevated reservoirs, five ground level reservoirs, 40 wells in nine well fields, 13 booster stations, and four water purification treatment plants. Total reservoir storage amounts to 24.5 million gallons for fire protection and peak demand. Annual production currently exceeds 9.5 billion gallons. On the wastewater side, treatment demand is currently at approximately 20.5 mgd while capacity is at 40.6 mgd. With the city's Westside (21.3 mgd capacity) and Marine Park (16.1 mgd capacity) treatment plants, and related system of interceptor sewers, the city provides sanitary sewer service in a drainage basin that encompasses more than the area within the present corporate city limits. The city also operates a 90-million-gallon industrial waste treatment lagoon near the Westside Treatment Plant to treat industrial effluent for large food and beverage processors.

Rates

Water and sewer rates are competitive and below average for the region at \$41.26 per month (with 1,000 cubic feet of water usage) for an in-city single-family residence. Findings of a recently completed rate study indicate that water system rates are subsidizing sewer operations. In order to bring the sewer system into self-sufficiency, the city raised sewer rates 10% in 2001 and 2002 and intends to increase sewer rates 10% annually through 2006 and 4.4% in 2007. The 2001 study was updated in 2003, with reiterations of the recommended rate increases through 2007. The city does not anticipate increasing water rates through 2008. Importantly, although the city council has not formally adopted the planned rate increases, it has approved of them in principal and with political consensus. System development charges (connection fees) were increased in 2001 to \$1,716 from \$1,020 for the water system and to \$1,999 from \$1,377 for the sewer system. The city does not anticipate additional system development charge increases.

Economic Base

Vancouver is located immediately across the Columbia River from Portland, Ore. and has an approximate population of 148,800. Population growth trends have exceeded the city's projections. In addition, broader growth in the Portland MSA has spurred population growth in Vancouver, particularly because of Vancouver's more affordable nature. The area economy is industrial, with high-technology manufacturing, food and metals processing, and a limited wood products presence. Leading employers include a regional medical center (2,900), Hewlett-Packard (1,900), and Georgia Pacific

(1,200). Residents have commute access to the Portland employment base. Over the past decade, wealth levels have steadily increased with per capita effective buying income at 95% of the state and 111% of the national average. Overall, wealth levels have improved from 1990 when per capita effective buying income was 92.4% of the national average. Reflecting the slowdown in the national and regional economy, however, and particular in the greater Portland MSA, city unemployment rose to a very high 12.4% over the first nine months of 2003 from a recent low of 4.6% in 1997, while state and national rates over that period rose to 7.4% and 6.1%, respectively.

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The McGraw-Hill Companies

Blanket Issuer Letter of Representations
(To be Completed by Issuer)

City of Vancouver, Washington

[Name of Issuer]

August 1, 1995

[Date]

Attention: Underwriting Department — Eligibility
The Depository Trust Company
55 Water Street, 50th Floor
New York, NY 10041-0099

Ladies and Gentlemen:

This letter sets forth our understanding with respect to all issues (the "Securities") that Issuer shall request be made eligible for deposit by The Depository Trust Company ("DTC").

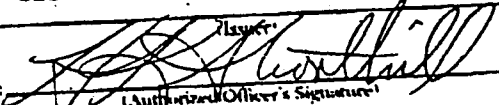
To induce DTC to accept the Securities as eligible for deposit at DTC, and to act in accordance with DTC's Rules with respect to the Securities, Issuer represents to DTC that Issuer will comply with the requirements stated in DTC's Operational Arrangements, as they may be amended from time to time.

Note:

Schedule A contains statements that DTC believes accurately describe DTC, the method of effecting book-entry transfers of securities distributed through DTC, and certain related matters.

Very truly yours,

CITY OF VANCOUVER, WASHINGTON

By: 
(Authorized Officer's Signature)

Received and Accepted:

THE DEPOSITORY TRUST COMPANY

By: 

SCHEDULE A

SAMPLE OFFERING DOCUMENT LANGUAGE DESCRIBING BOOK-ENTRY-ONLY ISSUANCE

(Prepared by DTC—bracketed material may be applicable only to certain issues)

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the securities (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Security certificate will be issued for [each issue of] the Securities, [each] in the aggregate principal amount of such issue, and will be deposited with DTC. [If, however, the aggregate principal amount of [any] issue exceeds \$200 million, one certificate will be issued with respect to each \$200 million of principal amount and an additional certificate will be issued with respect to any remaining principal amount of such issue.]

2. DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Securities with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

[6. Redemption notices shall be sent to Cede & Co. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.]

7. Neither DTC nor Cede & Co. will consent or vote with respect to Securities. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Principal and interest payments on the Securities will be made to DTC. DTC's practice is to credit Direct Participants' accounts on payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Agent, or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Issuer or the Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

[9. A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to the [Tender/Remarketing] Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to the [Tender/Remarketing] Agent. The requirement for physical delivery of Securities in connection with a demand for purchase or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records.]

10. DTC may discontinue providing its services as securities depository with respect to the Securities at any time by giving reasonable notice to the Issuer or the Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Security certificates are required to be printed and delivered.

11. The Issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered.

12. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Issuer believes to be reliable, but the Issuer takes no responsibility for the accuracy thereof.

CITY OF VANCOUVER, WASHINGTON
WATER AND SEWER REVENUE REFUNDING BONDS, 2004
\$26,250,000

CERTIFICATE OF AUTHENTICATION,
REGISTRATION AND DELIVERY OF BONDS

The Bank of New York of New York, New York (hereinafter sometimes referred to as "Registrar"), hereby certifies as follows:

(1) The Registrar hereby acknowledges receipt in New York, New York, of the following numbers of unauthenticated bonds of the following issue:

Bond Issue	Number of Unauthenticated Bonds Received
City of Vancouver, Washington Water and Sewer Revenue Refunding Bonds, 2004 - \$26,250,000	17

(2) On the date hereof the Registrar authenticated and registered the City of Vancouver, Washington Water and Sewer Revenue Refunding Bonds, 2004, in the aggregate principal amount of \$26,250,000 by manually executing the Certificate of Authentication and by entering the names and addresses of the bond owners or their nominees in records maintained for such purpose and shall hold the Bonds on behalf of The Depository Trust Company.

(3) All unauthenticated bonds delivered to the Registrar shall be held by it and shall be subject to the trust created by the Washington State Fiscal Agency Contract and the duties and obligations created therein. The Registrar shall be liable for the safekeeping thereof and for the performance of its duties and obligations as specifically set forth therein and for the actions and omissions of its agent(s). The Registrar shall act in good faith, and no implied duties or obligations shall be incurred by the Registrar other than those specifically in said Fiscal Agency Contract.

(4) CUSIP Numbers have been assigned to the Bonds as follows:

Maturity Year (June 1)	Principal Amount	Interest Rate	CUSIP Nos.
2004	\$ 30,000	2.000%	921645PJ0
2005	120,000	2.000	921645PK7
2006	125,000	2.000	921645PL5
2007	125,000	2.500	921645PM3
2008	130,000	2.750	921645PN1
2009	135,000	3.000	921645PP6
2010	1,455,000	3.000	921645PQ4
2011	1,505,000	5.000	921645PR2
2012	1,595,000	5.000	921645PS0
2013	805,000	3.375	921645PT8
2014	2,600,000	5.250	921645PU5
2015	2,750,000	5.250	921645PV3
2016	2,895,000	5.250	921645PW1
2017	2,185,000	5.000	921645PX9
2018	2,305,000	5.000	921645PY7
2019	3,650,000	5.000	921645PZ4
2020	3,840,000	5.000	921645QA8

DATED at New York, New York, as of this 26th day of February, 2004.

THE BANK OF NEW YORK, of
New York, New York, as Registrar

By Edward Luter
Assistant Treasurer

CERTIFICATE OF AUTHORIZATION OF AUTHORIZED OFFICER
OF THE BANK OF NEW YORK

I, James Hall, certify that I am the Vice President of The Bank of New York, fiscal agency for the State of Washington and Bond Registrar for the City of Vancouver, Washington Water and Sewer Revenue Refunding Bonds, 2004; and

I further certify that Edward Souter is an Assistant Treasurer of The Bank of New York and is authorized by the Bank to sign the above bonds as the Authorized Officer for the Bank; and

I further certify that the signature set forth below is the true and correct signature of such Authorized Officer.

DATED as of this 26th day of February, 2004.



Vice President

(Title)



Authorized Signer

Information Return for Tax-Exempt Governmental Obligations

Under Internal Revenue Code section 149(e)

See separate instructions.

OMB No. 1545-0720

Department of the Treasury
Internal Revenue Service

Caution: If the issue price is under \$100,000, use Form 8038-GC.

Part I Reporting AuthorityIf Amended Return, check here ☐

1 Issuer's name City of Vancouver, Washington	2 Issuer's employer identification number 91 6001288
3 Number and street (or P.O. box if mail is not delivered to street address) P.O. Box 1995	Room/suite 3 01
5 City, town, or post office, state, and ZIP code Vancouver, WA 98668	4 Report number 3 01
7 Name of issue Water and Sewer Revenue Refunding Bonds, 2004	6 Date of issue February 26, 2004
9 Name and title of officer or legal representative whom the IRS may call for more information Carrie Lewellen, Treasurer	8 CUSIP Number 921645QA8
	10 Telephone number of officer or legal representative (360) 696-8200

Part II Type of Issue (check applicable box(es) and enter the issue price) See instructions and attach schedule

11 <input type="checkbox"/> Education	11
12 <input type="checkbox"/> Health and hospital	12
13 <input type="checkbox"/> Transportation	13
14 <input type="checkbox"/> Public safety	14
15 <input type="checkbox"/> Environment (including sewage bonds)	15
16 <input type="checkbox"/> Housing	16
17 <input checked="" type="checkbox"/> Utilities	17 28,763,374.20
18 <input type="checkbox"/> Other. Describe ►	18
19 If obligations are TANs or RANs, check box <input type="checkbox"/> If obligations are BANs, check box <input type="checkbox"/>	
20 If obligations are in the form of a lease or installment sale, check box <input type="checkbox"/>	

Part III Description of Obligations. Complete for the entire issue for which this form is being filed.

	(a) Final maturity date	(b) Issue price	(c) Stated redemption price at maturity	(d) Weighted average maturity	(e) Yield
21	06/01/2020	\$ 28,763,374.20	\$ 26,250,000.00	12.055 years	3.9830132 %

Part IV Uses of Proceeds of Bond Issue (including underwriters' discount)

22 Proceeds used for accrued interest	22	-0-
23 Issue price of entire issue (enter amount from line 21, column (b))	23	28,763,374.20
24 Proceeds used for bond issuance costs (including underwriters' discount)	24	266,237.50
25 Proceeds used for credit enhancement	25	137,107.49
26 Proceeds allocated to reasonably required reserve or replacement fund	26	-0-
27 Proceeds used to currently refund prior issues	27	-0-
28 Proceeds used to advance refund prior issues	28	28,357,256.73
29 Total (add lines 24 through 28)	29	28,760,601.72
30 Nonrefunding proceeds of the issue (subtract line 29 from line 23 and enter amount here)	30	2,772.48

Part V Description of Refunded Bonds (Complete this part only for refunding bonds.)

31 Enter the remaining weighted average maturity of the bonds to be currently refunded	N/A	years
32 Enter the remaining weighted average maturity of the bonds to be advance refunded	12.366	years
33 Enter the last date on which the refunded bonds will be called	06/01/2009	
34 Enter the date(s) the refunded bonds were issued	11/01/1999	

Part VI Miscellaneous

35 Enter the amount of the state volume cap allocated to the issue under section 141(b)(5)	35	N/A
36a Enter the amount of gross proceeds invested or to be invested in a guaranteed investment contract (see instructions)	36a	N/A
b Enter the final maturity date of the guaranteed investment contract ►		
37 Pooled financings: a Proceeds of this issue that are to be used to make loans to other governmental units	37a	N/A
b If this issue is a loan made from the proceeds of another tax-exempt issue, check box <input type="checkbox"/> and enter the name of the Issuer ► and the date of the issue ►		
38 If the issuer has designated the issue under section 265(b)(3)(B)(i)(III) (small issuer exception), check box <input type="checkbox"/>		
39 If the issuer has elected to pay a penalty in lieu of arbitrage rebate, check box <input type="checkbox"/>		
40 If the issuer has identified a hedge, check box <input type="checkbox"/>		

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete.

Please
Sign
Here

Signature of issuer's authorized representative

02/26/2004
DateCarrie Lewellen,
Treasurer

Type or print name and title

February 26, 2004

**VIA CERTIFIED MAIL
RETURN RECEIPT REQUESTED**

Internal Revenue Service
Ogden, UT 84201-0002

Re: City of Vancouver, Washington Water and Sewer Revenue Refunding Bonds,
2004 - \$26,250,000

Ladies and Gentlemen:

Enclosed please find an IRS Form 8038-G relative to the above-captioned issue. Please acknowledge receipt of the same by signing the enclosed, duplicate copy of this letter where indicated, and returning it to me using the enclosed envelope.

Thank you for your assistance in this matter.

Very truly yours,

PRESTON GATES & ELLIS LLP

By 
Cynthia M. Weed

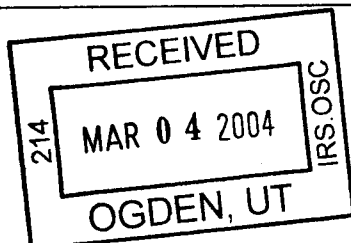
Enclosures

K:124961\00032\XKEW\XKEWL2129

I hereby acknowledge receipt of IRS Form 8038-G as submitted by City of Vancouver, Washington, relative to its Water and Sewer Revenue Refunding Bonds, 2004 - \$26,250,000.

Date: _____

By: _____



SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

Internal Revenue Service
Ogden, UT 84201-0002

COMPLETE THIS SECTION ON DELIVERY

A. Signature

X☐ Agent☐ Addressee

B. Received by (Printed Name)

MAR 05 2004

C. Date of Delivery

D. Is delivery address different from item 1? ☐ YesIf YES, enter delivery address below: ☐ No

3. Service Type

☒ Certified Mail☐ Express Mail☐ Registered☐ Return Receipt for Merchandise☐ Insured Mail☐ C.O.D.

4. Restricted Delivery? (Extra Fee)

☐ Yes

AFFIDAVIT OF MAILING 8038-G

STATE OF WASHINGTON)

) ss.

COUNTY OF KING)

S. Graves, being duly sworn, deposes and says that ~~he~~she is a citizen of the United States and over the age of eighteen years; that ~~he~~she is a resident of King County, Washington.

That on 2-27, 2004, at 4:55 a.m./p.m., at the request of Cynthia M. Weed, ~~he~~she caused an IRS Form 8038-G, completed by the City of Vancouver, Washington, in connection with its Water and Sewer Revenue Refunding Bonds, 2004, be mailed by depositing the same in the United States mail, in a sealed envelope, certified delivery, first class, postage prepaid, properly addressed to the Internal Revenue Service, Ogden, UT 84201-0002.

S. Graves

Sworn to before me this 27 day of 2, 2004.

Nate A. Baker
Notary Public in and for the State of
Washington, residing at Preston Gates Ellis
Print name: Nate A. Baker
My commission expires 4-29-06

[SEAL]

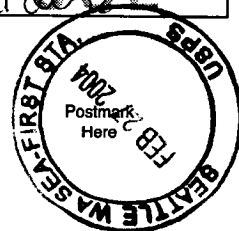
K:\24961\00032\XKEWXKEWL2129



959 4050 5000 0050 E002

U.S. Postal Service	
CERTIFIED MAIL RECEIPT	
(Domestic Mail Only; No Insurance Coverage Provided)	
For delivery information visit our website at www.usps.com	
Att: <u>Kerry White</u> <u>Enkel-205</u>	
Postage	\$.60
Certified Fee	2.30
Return Receipt Fee (Endorsement Required)	1.75
Restricted Delivery Fee (Endorsement Required)	
Total Postage & Fees	\$ 4.65
Sent To: <u>Internal Revenue Service</u>	
Street, Apt. No., or PO Box No.:	
City, State, ZIP+4:	
<u>Ogden UT 84201-0002</u>	

PS Form 3800, March 2002



February 26, 2004

Washington State Office of
Community Development
906 Columbia Street S.W.
P.O. Box 48350
Olympia, WA 98504-8350

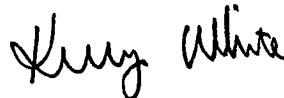
Re: City of Vancouver, Washington, Water and Sewer Revenue Refunding Bonds,
2004 - \$26,250,000

Ladies and Gentlemen:

In compliance with RCW ch. 39.44, we enclose the Bond Report Form 101 in connection with the above-captioned financing. We have also enclosed a copy of the bond covenants and the official statement.

Very truly yours,

PRESTON GATES & ELLIS LLP



By
Kerry White
Paralegal

Enclosures

K:\24961\00032\XKEW\XKEWL212B



STATE OF WASHINGTON
DEPARTMENT OF COMMUNITY,
TRADE AND ECONOMIC DEVELOPMENT

906 Columbia Street SW
P.O. Box 48350
Olympia, WA 98504-8350
Fax: 360/586-4162
360/725-3019
Attn: Bond Users
Clearinghouse

BOND REPORT FORM 101



1. Name of Issuer: City of Vancouver
Address of Issuer: P.O. Box 1995
Vancouver, WA 98668
2. County in which the entity using the bond proceeds is located: Clark
If two to four counties are using the bond proceeds, type names in the blank field. If more, click on "various counties" or "all counties."
3. Principal user (if different than issuer): same
4. Exact title of bond (or "type of debt" if no title): Water and Sewer Revenue Refunding Bonds, 2004
5. Was the bond issue "voter approved"? Yes ☐ No ☒
6. (a) Par Tax-exempt \$26,250,000 (b) Net interest Tax-exempt 4.22248% ☐
value: Taxable \$ cost*: Taxable % ☐
*See instructions for formula. If either or both interest rates are variable rather than fixed, please check the box(es) to the right of the percentage signs.
7. Discount: \$ Premium: \$2,513,374.20
8. Dated date of bond: February 26, 2004 Date of bond sale: February 4, 2004
9. What is the underlying security on which this bond is based, such as taxes or other revenue stream(s) that support the debt? *(Please answer the question even if an official statement is enclosed.)*
Revenues of the Water and Sewer System
10. Name of financial advisor: N/A
11. Name of bond counsel: Preston Gates & Ellis LLP
12. Name of lead underwriter(s): Piper Jaffray & Co.
13. Name of company insuring bond: Financial Guaranty Insurance Company
14. Name of registrar: The Bank of New York
15. Name of trustee: U.S. Bank National Association, Portland, Oregon (Escrow Agent)
16. Purpose of proceeds: *(Please answer question even if official statement is enclosed.)*
Refund certain outstanding Water and Sewer Bonds of the City.

17. What is the maturity date? 06/01/2020 (Please answer question even if official statement enclosed.)
If official statement is not enclosed, attach maturity schedule including dates, amounts and interest rates.
18. Method of bond sale: Competitive Bids ☐ Negotiated Sale ☒ Private Placement ☐ ☐
19. If it was a competitive sale, how many bids were received?
20. If the bond sale was negotiated, express the gross underwriting spread (see instructions for definition).
Only leave field blank if here is no fee: \$177,187.50 ☐ Check box if figure is an estimate.
21. List the fee for bond counsel service (only leave field blank if there is no fee): \$ 40,000.00
☐ Check box if the above figure is an estimate.
22. Indicate other fees and costs associated with bond issuance (not included as part of the costs in questions #20 and 21). Only leave fields blank if there are no fees. Check boxes when figures are estimates.
- | | | | | | |
|---|-------------|--------------------------|-----------------------|--------------|--------------------------|
| Legal/Underwriter's Counsel Fee: | \$15,000.00 | <input type="checkbox"/> | Financial Advisor: | \$ | <input type="checkbox"/> |
| Administrative/Commission Fee: | \$ | <input type="checkbox"/> | Bond Insurance: | \$137,107.49 | <input type="checkbox"/> |
| Feasibility Study: | \$ | <input type="checkbox"/> | Advertising/Printing: | \$2,250.00 | <input type="checkbox"/> |
| Rating Agency: | \$26,250.00 | <input type="checkbox"/> | Out-of-State Travel: | \$ | <input type="checkbox"/> |
| Trustee: | \$3,000.00 | <input type="checkbox"/> | Misc: | \$ | <input type="checkbox"/> |
| Credit Enhancement (letters of credit): | \$ | <input type="checkbox"/> | Misc: | \$ | <input type="checkbox"/> |
| Escrow Costs: | \$2,800.00 | <input type="checkbox"/> | Misc: | \$ | <input type="checkbox"/> |
23. Was bond rated? If yes, please state the rating given by each agency:
Standard & Poor's AAA Moody's Aaa Fitch
24. **IMPORTANT:** RCW 39.44.210 requires a copy of the bond covenants to be submitted with this report form. Have you submitted such a copy? Yes ☒ No ☐
- If not, state the reason and/or your intended submission date.
- Is a copy of the official statement or offering circular available? Yes ☒ No ☐
If yes, it should be included with this report.
25. This information has been submitted by:
Name: Cynthia Weed
Title: Attorney
Affiliation: Preston Gates & Ellis LLP
Address: 925 Fourth Avenue, Suite 2900
City: Seattle State: WA Zip: 98104
Email: cweed@prestongates.com
Phone: 206-623-7580 Date: February 26, 2004
* If this report and supporting documents are being submitted after their due date (see instructions), briefly explain reason:
26. Any additional comments, questions or suggestions?

K:\24961\00032\XKEW\XKEWO211N

CERTIFICATE OF MAILING

I, Kerry White, the qualified and acting Paralegal of the law firm of Preston Gates & Ellis LLP representing

CITY OF VANCOUVER, WASHINGTON
(MUNICIPALITY)

DO HEREBY CERTIFY that on the 12th day of December 2002, I mailed to the Secretary of State of the State of Washington, postage prepaid, certificates of manual signature in the form attached hereto executed by the following official(s):

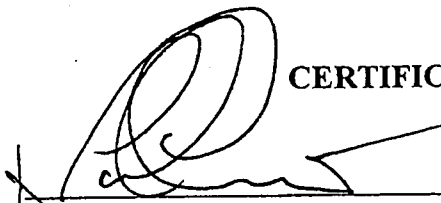
Name
PAUL LEWIS

Position
CITY CLERK,
CITY OF VANCOUVER, WASHINGTON

* * * * *

Dated 12-12-02

Kerry White
(SIGNATURE)


Signature

CERTIFICATE OF MANUAL SIGNATURE

STATE OF WASHINGTON)
) ss:
COUNTY OF CLARK)

I, the undersigned affiant, being first duly sworn, on oath depose and say:

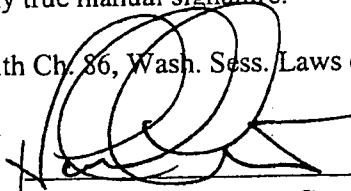
My name is Paul Lewis
(print or type)

I have been duly chosen and am qualified and acting as

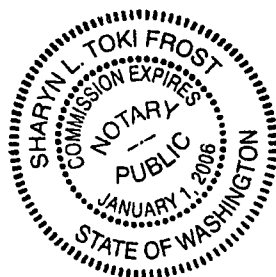
City Clerk
(title or position)
for City of Vancouver, Washington
(name of municipality)

The signature appearing above is my true manual signature.

This affidavit is made to comply with Ch. 86, Wash. Sess. Laws of 1969.


Signature

SUBSCRIBED AND SWORN TO before me this 17th
day of October, 2002.



Sharyn L. Toki Frost
NOTARY PUBLIC in and for the State of
Washington, residing at Camas, Washington
Printed Name: Sharyn L. Toki Frost
My Commission Expires: 01/01/06

CERTIFICATE OF MAILING

I, Susan Ichikawa, the duly chosen
(PRINT OR TYPE NAME)
and acting Municipal Legal Assistant
(POSITION)
law firm of Preston Gates & Ellis LLP
Seattle, Washington
(MUNICIPALITY)

HEREBY CERTIFY that on the 16th day of January, 1997,
led to the Secretary of State of the State of Washington, postage prepaid, certifi-
of manual signature in the form attached hereto executed by the following officials:

<i>Name</i>	<i>Position</i>
<u>Royce E. Pollard</u>	<u>Mayor, City of Vancouver</u>
<u></u>	<u></u>
<u></u>	<u></u>
<u></u>	<u></u>
<u></u>	<u></u>
<u></u>	<u></u>
<u></u>	<u></u>

i January 16, 1997

Susan Ichikawa
(SIGNATURE)

CERTIFICATE OF MANUAL SIGNATURE

x R E Pollard
SIGNATURE

STATE OF WASHINGTON }
COUNTY OF CLARK } ss.

I, the undersigned affiant, being first duly sworn, on oath depose and say:

My name is Royce E. Pollard
(PRINT OR TYPE)

I have been duly chosen and am qualified and acting as

Mayor

(TITLE OR POSITION)

for City of Vancouver, Washington
(NAME OF MUNICIPALITY)

The signature appearing above is my true manual signature.

This affidavit is made to comply with Ch. 86, Wash. Sess. Laws of 1969.

x R E Pollard

SUBSCRIBED AND SWORN TO before me this 20th day of

December, 1996

JUDITH K. HOGGATT
STATE OF WASHINGTON
NOTARY ---- PUBLIC
MY COMMISSION EXPIRES 2-17-00

Judith K. Hoggatt
NOTARY PUBLIC in and for the
State of Washington, residing at
Butte Creek

UNITED STATES OF AMERICA

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC"), TO ISSUER OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE, OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

R-1

\$30,000

STATEMENT OF INSURANCE

Financial Guaranty Insurance Company ("Financial Guaranty") has issued a policy containing the following provisions with respect to the CITY OF VANCOUVER, WASHINGTON, WATER AND SEWER REVENUE REFUNDING BONDS, 2004 (the "Bonds"), such policy being on file at the principal office of the Registrar, as paying agent (the "Paying Agent"):

Financial Guaranty hereby unconditionally and irrevocably agrees to pay for disbursement to the Bondholders that portion of the principal of and interest on the Bonds which is then due for payment and which the issuer of the Bonds (the "Issuer") shall have failed to provide. Due for payment means, with respect to the principal, the stated maturity date thereof, or the date on which the same shall have been duly called for mandatory sinking fund redemption, and does not refer to any earlier date on which the payment of principal of the Bonds is due by reason of call for redemption (other than mandatory sinking fund redemption), acceleration or other advancement of maturity, and with respect to interest, the stated date for payment of such interest.

Upon receipt of telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or the Paying Agent to Financial Guaranty that the required payment of principal or interest has not been made by the Issuer to the Paying Agent, Financial Guaranty on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, or its successor as its agent (the "Fiscal Agent"), sufficient to make the portion of such payment not paid by the Issuer. Upon presentation to the Fiscal Agent of evidence satisfactory to it of the Bondholder's right to receive such payment and any appropriate instruments of assignment required to vest all of such Bondholder's right to such payment in Financial Guaranty, the Fiscal Agent will disburse such amount to the Bondholder.

As used herein the term "Bondholder" means the person other than the Issuer who at the time of nonpayment of a Bond is entitled under the terms of such Bond to payment thereof.

The policy is non-cancelable for any reason.

FINANCIAL GUARANTY INSURANCE COMPANY

STATE OF WASHINGTON CITY OF VANCOUVER WATER AND SEWER REVENUE REFUNDING BOND, 2004

INTEREST RATE:

2.000%

MATURITY DATE:

JUNE 1, 2004

CUSIP NO.

921645PJ0

REGISTERED OWNER: CEDE & Co.

PRINCIPAL AMOUNT: THIRTY THOUSAND AND NO/100 DOLLARS

THE CITY OF VANCOUVER, a municipal corporation organized and existing under and by virtue of the laws of the State of Washington (the "City"), promises to pay to the Registered Owner identified above, or registered assigns, on the Maturity Date identified above, solely from the Bond Fund, the Principal Amount indicated above and to pay interest thereon from the Bond Fund from February 26, 2004, or the most recent date to which interest has been paid or duly provided for or until payment of this bond at the Interest Rate set forth above, payable on June 1, 2004, and semiannually thereafter on the first days of each June and December. Both principal of and interest on this bond are payable in lawful money of the United States of America. For so long as the bonds of this issue are held in fully immobilized form, payments of principal and interest thereon shall be made as provided in accordance with the operational arrangements of The Depository Trust Company ("DTC") referred to in the Blanket Issuer Letter of Representations (the "Letter of Representations") from the City to DTC. Principal shall be paid to the Registered Owner or assigns upon presentation and surrender of this bond at the principal office of the fiscal agency of the State of Washington in New York, New York (the "Bond Registrar"). Capitalized terms used in this bond which are not specifically defined have the meanings given such terms in Ordinance No. M-3644 of the City (the "Bond Ordinance").

This bond is one of an issue of \$26,250,000 of bonds of the City of like date, tenor and effect, except as to number, amount, rate of interest and date of maturity and is issued pursuant to the Bond Ordinance to refund certain outstanding water and sewer revenue bonds of the City.

The bonds of this issue are not subject to redemption prior to their scheduled maturities.

The bonds of this issue are not general obligations of the City. The City hereby covenants and agrees with the owner and holder of this bond that it will keep and perform all the covenants of this bond and the Bond Ordinance.

The bonds of this issue are not "private activity bonds" as such term is defined in the Internal Revenue Code of 1986, as amended (the "Code"). The bonds of this issue are not "qualified tax-exempt obligations" under Section 265(b) of the Code.

The City does hereby pledge and bind itself to set aside from the Revenue Fund out of the Revenues of the System and to pay into the Bond Fund and the accounts created therein the various amounts required by the Bond Ordinance to be paid into and maintained in such Fund and accounts, all within the times provided by the Bond Ordinance.

To the extent more particularly provided by the Bond Ordinance, the amounts so pledged to be paid into the Interest Account, the Principal Account, the Bond Retirement Account and the Reserve Account from the Revenue Fund shall be a lien and charge upon the Revenues prior and superior to all other charges of any kind or nature whatsoever, except for the payment of Operating Expenses and except that the amounts so pledged shall be of equal lien to the liens and charges upon such Revenues heretofore made for the payment and security of the payment of the principal of and interest on the Outstanding Parity Bonds and which may hereafter be made to pay and secure the payment of any Future Parity Bonds.

The City has further bound itself to maintain the System in good repair, working order and condition, to operate the same in an efficient manner and at a reasonable cost, and to establish, maintain and collect rates and charges for as long as any of the bonds of this issue are outstanding that will make available, for the payment of the principal thereof and interest thereon as the same shall become due, Net Revenues in an amount that will be at least equal to 1.30 times the Average Annual Debt Service.

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

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

It is hereby certified and declared that this bond and the bonds of this issue are issued pursuant to and in strict compliance with the Constitution and laws of the State of Washington and ordinances of the City and that all acts, conditions and things required to be done precedent to and in the issuance of this bond have happened, been done and performed.

IN WITNESS WHEREOF, the City of Vancouver, Washington has caused this bond to be signed with the facsimile or manual signature of the Mayor, to be attested by the facsimile or manual signature of the City Clerk, and the corporate seal of the City to be reproduced hereon, all as of this 26th day of February, 2004.

CITY OF VANCOUVER, WASHINGTON



By


Mayor

ATTEST:


City Clerk

CERTIFICATE OF AUTHENTICATION

Date of Authentication: February 26th, 2004

This bond is one of the bonds described in the within-mentioned Bond Ordinance and is one of the Water and Sewer Revenue Refunding Bonds, 2004 of the City of Vancouver, Washington, dated February 26, 2004.

WASHINGTON STATE FISCAL AGENCY, Bond Registrar

By 
Authorized Signer

February 26, 2004

City of Vancouver, Washington

Piper Jaffray & Co.
Seattle, Washington

Re: City of Vancouver, Washington Water and Sewer Revenue Refunding Bonds, 2004 - \$26,250,000

Ladies and Gentlemen:

We have acted as bond counsel to the City of Vancouver, Washington (the "City"), and have examined a certified transcript of all of the proceedings taken in the matter of the issuance by the City of its Water and Sewer Revenue Refunding Bonds, 2004, in the aggregate principal amount of \$26,250,000 (the "Bonds") issued pursuant to Ordinance No. M-3644 of the City (the "Bond Ordinance") for the purpose of refunding certain outstanding water and sewer revenue bonds of the City. Capitalized terms used in this opinion have the meanings given such terms in the Bond Ordinance.

The Bonds are not subject to redemption prior to their stated maturities.

As to questions of fact material to our opinion, we have relied upon representations of the City contained in the Bond Ordinance and in the certified proceedings and other certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

From such examination, as of this date and under existing law, we express the following opinions.

1. The Bonds have been legally issued and constitute valid special obligations of the City, both principal thereof and interest thereon being payable solely out of a special fund of the City known as the "Water and Sewer Revenue Bond Fund" (the "Bond Fund"), except to the extent that the enforcement of the rights and remedies of such owners of the Bonds may be limited by laws relating to bankruptcy, reorganization, insolvency, moratorium or other similar laws of general application affecting the rights of creditors, by the application of equitable principles and the exercise of judicial discretion.

2. The City has irrevocably bound itself to set aside and pay into the Bond Fund and the accounts therein out of Revenues of the System deposited into the Revenue Fund amounts necessary to pay the principal of and interest on the Bonds as the same become due.

3. By the Bond Ordinance the City has pledged that the payments to be made into the Bond Fund and the accounts therein from the Revenue Fund shall be a lien and charge upon the Revenues equal to the lien and charge upon such Revenues made for the payment of the principal of and interest on the Outstanding Parity Bonds and any Future Parity Bonds, and prior and superior to all other charges of any kind or nature whatsoever, except for the payment of Operating Expenses. The City has reserved the right to issue Future Parity Bonds on the terms set forth in the Bond Ordinance.

4. Interest on the Bonds is excluded from gross income for purposes of federal income taxation pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). The Bonds are not private activity bonds. Interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals or corporations, but is taken into account in the computation of adjusted current earnings for purposes of the corporate alternative minimum tax under Section 55 of the Code. The opinions stated in this paragraph are subject to the condition that the City comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The City has covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause the interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds.

The Bonds are not "qualified tax-exempt obligations" for investment by financial institutions under the Code.

We have not been engaged nor have we undertaken to review the accuracy, completeness or sufficiency of the official statement or other offering material related to the Bonds (except to the extent, if any, stated in the official statement), and we express no opinion relating thereto, or relating to the undertaking by the City to provide ongoing disclosure pursuant to Securities and Exchange Commission Rule 15c2-12.

We express no opinion regarding any other federal, state or local tax consequences arising with respect to ownership of the Bonds.

This opinion is given as of the date hereof and we assume no obligation to update, revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,

PRESTON GATES & ELLIS LLP



By

Cynthia M. Weed


RECEIPT FOR BONDS

PIPER JAFFRAY & CO., Seattle, Washington, hereby acknowledges receipt of the City of Vancouver, Washington Water and Sewer Revenue Refunding Bonds, 2004, in the aggregate principal amount of \$26,250,000, this 26th day of February, 2004.

PIPER JAFFRAY & CO.

By

Title


Managing Director

CERTIFICATE OF PAYMENT AND DELIVERY

I, CARRIE LEWELLEN, on behalf of the City of Vancouver, Washington (the "City"), DO HEREBY CERTIFY that on this date the City has delivered to Piper Jaffray & Co. (the "Purchaser"), the City of Vancouver, Washington Water and Sewer Revenue Refunding Bonds, 2004, in the aggregate principal amount of \$26,250,000, dated February 26, 2004 (the "Bonds") in the form and tenor provided by Ordinance No. M-3644 of the City. I further acknowledge payment from the Purchaser of the purchase price of the Bonds as follows:

Principal of Bonds	\$ 26,250,000.00
Plus: Bond Premium	2,513,374.20
Less: Underwriter's Discount	(177,187.50)
Less: Transfer to Escrow Agent	(28,446,556.73)
Less: Insurance Policy to FGIC	<u>(137,107.49)</u>
TOTAL AMOUNT DUE:	\$ <u>2,522.48</u>
TOTAL AMOUNT PAID:	\$ <u>2,522.48</u>

DATED as of this 26th day of February, 2004.

CITY OF VANCOUVER, WASHINGTON

By 
Carrie Lewellen, Treasurer

PiperJaffray

1200 FIFTH AVENUE, SUITE 1500
P.O. BOX 34930
SEATTLE, WA. 98124-1930

CLOSING MEMORANDUM

		Phone Number	Fax Number
To:	Paul Lewis, Manager, Financial & Management Svcs.	(360) 619-1069	(360) 619-1083
	Carrie Lewellen, Treasurer	(360) 619-1082	(360) 619-1083
	Cynthia Weed, Preston Gates & Ellis LLP	(206) 370-7801	(206) 623-7022
	Kerry White, Preston Gates & Ellis LLP	(206) 370-5766	(206) 623-7022
	Irene Fisher, Gottlieb Fisher & Andrews PLLC	(206) 654-1999	(206) 654-8725
	Kit Roth, Gottlieb Fisher & Andrews PLLC	(206) 654-1999	(206) 654-8725
	Mary Turtle, Gottlieb Fisher & Andrews PLLC	(206) 654-1999	(206) 654-8725
	Anna Gaffney, FGIC	(212) 312-3067	(212) 312-3206
	Linda McConkey, US Bank Trust National Association	(503) 275-5659	(503) 275-5738
	Jack Blumenthal, Causey Demgen & Moore	(303) 672-9890	(303) 296-3731
	Sadie Richards, The Bank of New York	(212) 815-5092	(212) 815-3466
From:	Greg Sundberg, Managing Director	(206) 287-8823	(206) 287-8895
	Richard A. Schober, Jr., Vice President	(206) 287-8843	(206) 287-8895
	Chris Higgins, Associate	(206) 287-8845	(206) 287-8895
Date:	February 24, 2004		
Re:	\$26,250,000 City of Vancouver, Washington Water and Sewer Revenue Refunding Bonds, 2004		

The purpose of this memo is to inform all interested parties of the details pertaining to the closing of the above-referenced bond issue:

Closing: Thursday, February 26, 2004, 9:00 a.m. (Pacific Time)

Location: Preston Gates & Ellis
925 Fourth Ave, Suite 2900
Seattle, WA 98104-1158

If we are successful in obtaining all required signatures and legal documents by February 25, 2004, the closing will be held via conference call.

Calculation of total purchase price for the Bonds:

Bond Par	\$26,250,000.00
Plus: Reoffering Premium	2,513,374.20
Less: Underwriter's Discount	(177,187.50)
Total Purchase Price	\$28,586,186.70

Wire Instructions:

Four (4) wires will be required to close this Bond transaction. Wire instructions are as follows:

Wire # 1:

Piper Jaffray - Federal Funds Wire Instructions

Piper Jaffray will wire federal funds to Bank of America in the amount of \$2,522.48. This amount represents the contingency or rounding amount and can be applied to the City's first debt service payment.

Wire Amount:	\$2,522.48
	Washington State Treasurer Local Investment Pool
Wire To:	Bank of America, Olympia Branch
ABA No:	026009593
For Account:	62048509
Reference:	City of Vancouver, Washington

Wire # 2:

Piper Jaffray - Federal Funds Wire Instructions

Piper Jaffray will wire federal funds to U.S. Bank Trust National Association in the amount of \$28,446,556.73. This amount represents the bond proceeds deposit to the refunding escrow.

Wire Amount:	\$28,446,556.73
BBK:	US Bank NA Minneapolis
ABA No:	091000022
BNF:	U.S. Bank Trust N.A.
For Account:	180121167365
REF:	City of Vancouver Ref Esc 784561000
ATTN:	Adrian Fernandez 206-344-4684

- (1) *The Escrow Agent will pay costs of issuing the bonds from money in the Escrow Fund. The detailed costs of issuance are provided below.*

Wire # 3:

Piper Jaffray - Federal Funds Wire Instructions

Piper Jaffray will wire federal funds to Bankers Trust New York in the amount of \$137,107.49 representing the Financial Guaranty Insurance Company (FGIC) bond insurance premium.

Wire Amount:	\$137,107.49
Wire To:	JP Morgan Chase Bank
ABA No:	021000021
For Credit To:	Financial Guaranty Insurance Company Premium Account
Account No.:	904951812
FGIC Policy #:	04010068
Closing Coordinator:	Anna Gaffney (212) 312-3067

Wire # 4:

City of Vancouver - Federal Funds Wire Instructions

The City of Vancouver will wire federal funds to U.S. Bank Trust National Association in the amount of \$417,453.45 representing deposits to the refunding escrow from the Refunded Bonds debt service and debt service reserve funds. The respective amounts are as follows:

Refunded Bonds Debt Service Fund	\$372,670.62
Refunded Bonds Debt Service Reserve Fund	44,782.83
Total Purchase Price	\$417,453.45

Wire Amount:	\$417,453.45
BBK:	US Bank NA Minneapolis
ABA No:	091000022
BNF:	U.S. Bank Trust N.A.
For Account:	180121167365
REF:	City of Vancouver Ref Esc 784561000
ATTN:	Adrian Fernandez 206-344-4684

Bond proceeds from the Piper Jaffray wire # 2 will be combined with wire # 4 from the City of Vancouver to purchase certain non-callable government securities (SLGS) for the Refunding Escrow at a cost of \$28,774,609.00 and to establish a beginning cash balance in the escrow of \$101.18 (see Attachment A "Operation of Escrow Fund").

Estimated Costs of Issuance:

The estimated costs of issuance are as follows:

Bond Counsel	\$40,000.00
Underwriter's Counsel	15,000.00
Moody's Rating Agency Fee	10,250.00
Standard & Poor's Rating Agency Fee	16,000.00
Verification Agent	2,800.00
Escrow Agent Fee	3,000.00
I-Deal Prospectus (Electronic Distribution)	1,000.00
Official Statement Printing	1,250.00
Total	\$89,300.00

It has been a pleasure working with you on this transaction. Should you have any questions, please call Greg Sundberg, Dick Schober or Chris Higgins at the numbers referenced above.

Attachment A

Operation of Escrow Fund

Date	Principal	Rate	Interest	+Transfers	Receipts	Disbursements	Cash Balance
02/26/2004	-	-	-	0.62	101.18	-	101.18
06/01/2004	139,318.00	0.890%	232,482.55	373,539.96	745,340.51	745,341.25	100.44
12/01/2004	300,342.00	1.070%	444,999.65	-	745,341.65	745,341.25	100.84
06/01/2005	302,791.00	1.360%	442,549.91	-	745,340.91	745,341.25	100.50
12/01/2005	304,851.00	1.680%	440,490.94	-	745,341.94	745,341.25	101.19
06/01/2006	307,411.00	1.950%	437,930.20	-	745,341.20	745,341.25	101.14
12/01/2006	310,408.00	2.210%	434,932.95	-	745,340.95	745,341.25	100.84
06/01/2007	313,838.00	2.460%	431,502.95	-	745,340.95	745,341.25	100.54
12/01/2007	317,699.00	2.690%	427,642.75	-	745,341.75	745,341.25	101.04
06/01/2008	321,971.00	2.900%	423,369.70	-	745,340.70	745,341.25	100.49
12/01/2008	326,640.00	3.080%	418,701.13	-	745,341.13	745,341.25	100.37
06/01/2009	25,456,670.00	3.250%	413,670.88	-	25,870,340.88	25,870,341.25	100.00
Total	\$28,401,939.00	-	\$4,548,273.61	\$373,540.58	\$33,323,853.75	\$33,323,753.75	-

Investment Parameters

Investment Model [PV, GIC, or Securities]	Securities
Default investment yield target	Bond Yield
Cost of Investments Purchased with Debt Service Fund Transfers	372,670.62
Cash Deposit	100.56
Cost of Investments Purchased with Bond Proceeds & DSRF Transfers	28,401,939.00
Total Cash Deposit	\$101.18
Total Cost of Investments Purchased with Bond Proceeds and Fund Transfers	\$28,774,609.00
Total Cost of Investments	\$28,774,710.18
Target Cost of Investments at bond yield	\$27,411,516.26
Actual positive or (negative) arbitrage	(990,523.30)
Yield to Receipt	3.2042512%
Yield for Arbitrage Purposes	3.9830132%
State and Local Government Series (SLGS) rates for	1/29/2004

GOTTLIEB, FISHER & ANDREWS, PLLC



ATTORNEYS AT LAW

February 26, 2004

Piper Jaffray & Co.
Seattle, Washington

Re: \$26,250,000 City of Vancouver, Washington Water and Sewer Revenue Refunding Bonds, 2004

Ladies and Gentlemen:

We have acted as counsel to Piper Jaffray & Co. (the "Underwriter"), the underwriter named in that certain Bond Purchase Contract (the "Purchase Contract"), dated February 4, 2004, by and between the Underwriter and the City of Vancouver, Washington (the "City"), in connection with the purchase by the Underwriter from the City of the above-referenced bonds (the "Bonds").

This opinion letter is based upon our review of only the following documents:

- (a) The Purchase Contract;
- (b) Ordinance No. M-3644 of the City (the "Bond Ordinance"), adopted on February 2, 2004, authorizing the issuance of the Bonds and setting forth the City's continuing disclosure undertaking for the benefit of the holders of the Bonds;
- (c) A copy of the Preliminary Official Statement pertaining to the Bonds (the "Preliminary Official Statement"), dated January 29, 2004, which was deemed final by the City pursuant to the Bond Ordinance;
- (d) A copy of the Official Statement pertaining to the Bonds, dated February 4, 2004 (the "Official Statement"); and
- (e) The approving legal opinion with respect to the Bonds of Preston Gates & Ellis LLP, bond counsel, dated the date hereof, as required by Section 5.e.(3) of the Purchase Contract.

As to questions of fact material to the opinions expressed herein, we rely upon the representations of the City contained in the Purchase Contract, and upon certificates of public officials and officials of the City which have been furnished to us, all without undertaking to verify the same by independent investigation.

In connection with this opinion letter, we have assumed the authenticity of any document or other instrument submitted to us as an original, the conformity to the original of any documents or other instrument submitted to us as a copy, the genuineness of all signatures that are on such originals or copies, the mental competency of all natural persons executing documents, the truth, accuracy and completeness of the information contained in such documents, and the truth, accuracy and

completeness of certificates of public officials, in all such cases with respect to parties other than the Underwriter.

We note that various issues are addressed in the opinion of Preston Gates & Ellis LLP, described in subparagraph (e) above, which has been separately provided to you. We express no opinion with respect to any of the matters which are the subject of that opinion.

Based upon the foregoing and our examination of such questions of law as we have deemed necessary or appropriate for the purpose of this opinion, and subject to the limitations and qualifications expressed below, we are of the opinion that, as of this date:

1. The Bonds are exempt from registration under the federal Securities Act of 1933, as amended.

2. We are not passing upon and do not assume any responsibility for the accuracy, completeness or fairness of any of the statements contained in the Official Statement and make no representation that we have independently verified the accuracy, completeness or fairness of any such comments. However, to assist you in your investigation concerning the Official Statement, we have reviewed certain documents related to the contents of the Official Statement. During the course of our work on this matter, no facts have come to our attention that cause us to believe that the Official Statement (except for any financial, statistical, economic or demographic data, forecasts, numbers, charts, tables, graphs, estimates, projections, assumptions or expressions of opinion or any information about book-entry or The Depository Trust Company, or information regarding Financial Guaranty Insurance Company and its municipal bond insurance policy and the information contained in Appendices A, B, C, D, E and F thereto, as to which we express no opinion or view) contains as of the date hereof any untrue statement of a material fact or omits to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

The law covered by the opinions expressed herein is limited to the federal law of the United States of America and the law of the State of Washington.

This opinion letter is furnished to you in connection with the purchase of the Bonds from the City by the Underwriter, and is solely for your benefit. It is not to be quoted from, in whole or in part, or otherwise relied upon, referred or disclosed to, or filed with any governmental agency or other person for any purpose whatsoever, without our prior written permission. We expressly disclaim any responsibility to advise you of any developments in areas covered by this opinion letter that occur after the date hereof.

Respectfully submitted,

GOTTLIEB, FISHER & ANDREWS, PLLC

By



Irene M. Fisher

February 26, 2004

City of Vancouver, Washington

Piper Jaffray & Co.
Seattle, WA

Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017

Re: City of Vancouver, Washington Water and Sewer Revenue Refunding Bonds,
2004 - \$26,250,000

Ladies and Gentlemen:

We are bond counsel to City of Vancouver (the "City") and have acted as such in connection with the issuance and sale by the City of its Water and Sewer Revenue Refunding Bonds, 2004, in the aggregate principal amount of \$26,250,000 (the "Bonds"). The Bonds were issued, for the purpose of refunding the callable portion of the City's Water and Sewer Revenue Bonds, 1999, issued under date of November 1, 1999 and maturing on June 1, 2010 through June 1, 2020 (the "Refunded Bonds").

The Bonds are issued pursuant to an Ordinance of the City passed on February 2, 2004 (the "Bond Ordinance"). Capitalized terms used in this opinion which are not otherwise defined shall have the meanings given to such terms in the Bond Ordinance.

A portion of the proceeds of the Bonds will be used by the City to pay to the date of maturity thereof all remaining outstanding principal and interest on the Refunded Bonds. The sufficiency of such escrow has been verified by Causey Demgen & Moore Inc. For purposes of the opinions rendered herein, we have relied, without independent investigation, on such verification set forth therein.

City of Vancouver, Washington
Piper Jaffray & Co.
Financial Guaranty Insurance Company
February 26, 2004
Page 2

Based upon the foregoing, we are of the opinion that:

The Refunded Bonds have been defeased and discharged in accordance with the Ordinance authorizing their issuance, are deemed paid and no longer outstanding and have no further claim of any kind or under any circumstances to be paid from any funds or moneys of the City.

Very truly yours,

PRESTON GATES & ELLIS LLP

By 
Cynthia M. Weed

CMW:kw

P:\CMW\CMW67S

February 26, 2004

City of Vancouver, Washington

Piper Jaffray & Co.
Seattle, Washington

Re: City of Vancouver, Washington Water and Sewer Revenue Refunding Bonds,
2004 - \$26,250,000

Ladies and Gentlemen:

We have acted as bond counsel to the City of Vancouver, Washington (the "City"), and have examined a certified transcript of all of the proceedings taken in the matter of the issuance by the City of its Water and Sewer Revenue Refunding Bonds, 2004, in the aggregate principal amount of \$26,250,000 (the "Bonds") issued pursuant to Ordinance No. M-3644 of the City (the "Bond Ordinance") for the purpose of refunding certain outstanding water and sewer revenue bonds of the City. Capitalized terms used in this opinion have the meanings given such terms in the Bond Ordinance.

The Bonds are not subject to redemption prior to their stated maturities.

As to questions of fact material to our opinion, we have relied upon representations of the City contained in the Bond Ordinance and in the certified proceedings and other certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

From such examination, as of this date and under existing law, we express the following opinions.

1. The Bonds have been legally issued and constitute valid special obligations of the City, both principal thereof and interest thereon being payable solely out of a special fund of the City known as the "Water and Sewer Revenue Bond Fund" (the "Bond Fund"), except to the extent that the enforcement of the rights and remedies of such owners of the Bonds may be limited by laws relating to bankruptcy, reorganization, insolvency, moratorium or other similar laws of general application affecting the rights of creditors, by the application of equitable principles and the exercise of judicial discretion.

2. The City has irrevocably bound itself to set aside and pay into the Bond Fund and the accounts therein out of Revenues of the System deposited into the Revenue Fund amounts necessary to pay the principal of and interest on the Bonds as the same become due.

3. By the Bond Ordinance the City has pledged that the payments to be made into the Bond Fund and the accounts therein from the Revenue Fund shall be a lien and charge upon the Revenues equal to the lien and charge upon such Revenues made for the payment of the principal of and interest on the Outstanding Parity Bonds and any Future Parity Bonds, and prior and superior to all other charges of any kind or nature whatsoever, except for the payment of Operating Expenses. The City has reserved the right to issue Future Parity Bonds on the terms set forth in the Bond Ordinance.

4. Interest on the Bonds is excluded from gross income for purposes of federal income taxation pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). The Bonds are not private activity bonds. Interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals or corporations, but is taken into account in the computation of adjusted current earnings for purposes of the corporate alternative minimum tax under Section 55 of the Code. The opinions stated in this paragraph are subject to the condition that the City comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The City has covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause the interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds.

The Bonds are not "qualified tax-exempt obligations" for investment by financial institutions under the Code.

We have not been engaged nor have we undertaken to review the accuracy, completeness or sufficiency of the official statement or other offering material related to the Bonds (except to the extent, if any, stated in the official statement), and we express no opinion relating thereto, or relating to the undertaking by the City to provide ongoing disclosure pursuant to Securities and Exchange Commission Rule 15c2-12.

We express no opinion regarding any other federal, state or local tax consequences arising with respect to ownership of the Bonds.

City of Vancouver
Piper Jaffray & Co.
February 26, 2004
Page 3

This opinion is given as of the date hereof and we assume no obligation to update, revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,

PRESTON GATES & ELLIS LLP

By 
Cynthia M. Weed

CMW:kw

K:\24961\00032\CMW\CMW_L236Z

February 26, 2004

Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017

Re: City of Vancouver, Washington Water and Sewer Revenue Refunding Bonds,
2004 - \$26,250,000 (the "Bonds")

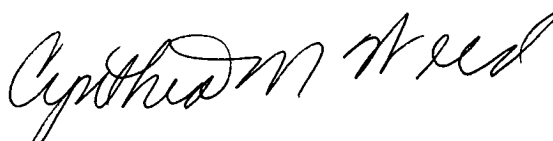
Ladies and Gentlemen:

This will confirm that you may rely upon our opinion as Bond Counsel of even date herewith and attached hereto with respect to the Bonds as fully and completely as if the same were addressed to you.

We are of the opinion that Ordinance No. M-3644 of the City of Vancouver, Washington (the "City") is a legal, valid and binding obligation of the City, has been duly authorized, executed and delivered and is enforceable in accordance with its terms, except to the extent that the enforcement of the rights and remedies of such owners of the Bonds may be limited by laws relating to bankruptcy, reorganization, insolvency, moratorium or other similar laws of general application affecting the rights of creditors, by the application of equitable principles and the exercise of judicial discretion.

Very truly yours,

PRESTON GATES & ELLIS LLP

By 
Cynthia M. Weed

CMW:kw
Enclosure
P:\CMW\CMW67S

SLGSafe

Redeem Securities

Time Deposit : Early Redemption Confirmation

Public Debt

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Main Menu

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E-Mail

To Exit SLGSafe:

- Please select one -

Treasury Case Number:

2004-01858

Issue Amount:

\$28,774,609.00

Owner TIN:

91-6001288-0029

Owner Name:

City of Vancouver

Bank Ref. Number:

Issue Date:

February 26, 2004

Please record this information for your case file. This is to confirm that we have received your request to redeem the following securities.

Treasury Case Number: 2004-01858

Security Number(s): 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11

Confirmation Date: April 02, 2004

Confirmation Time: 03:55 PM ET

Redemption Payment Date: May 27, 2004

Payment Instructions On File

Your early redemption payment will be made by ACH instructions currently on file. Please review this information carefully.

ABA Routing Number: 091000022

Account Name: US BANK NA

Account Number: 173100077762

Account Type: Checking

Please use these buttons for other options within SLGSafe:

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Updated April 2, 2004

SLGSafe*

Redeem Securities

Time Deposit : Early Redemption Calculations Report

**Division of the
Public Debt**

SLGSafe
Main Menu

SLGS Daily
Rate Table

SLGSafe
E-Mail

To Exit SLGSafe:

- Please select one -

Treasury Case Number:
2004-01858

Bank Ref. Number:

Owner TIN:
91-6001288-0029

Issue Date:
February 26, 2004

Date of Early Redemption Notice:
April 02, 2004

Date of Early Redemption Payment:
May 27, 2004

Securities Requested for Early Redemption

Security Number	1
Original Maturity Date	June 01, 2004
Early Redemption Amount Requested	\$511,988.00
Accrued Interest Amount	\$1,132.95
Penalty Amount	\$4.34
Premium Amount	\$0.00
Net Amount Paid	\$513,116.61

Security Number	2
Original Maturity Date	December 01, 2004
Early Redemption Amount Requested	\$300,342.00
Accrued Interest Amount	\$799.02
Penalty Amount	\$0.00
Premium Amount	\$72.58
Net Amount Paid	\$301,213.60

Security Number	3
Original Maturity Date	June 01, 2005
Early Redemption Amount Requested	\$302,791.00
Accrued Interest Amount	\$1,023.86
Penalty Amount	\$0.00
Premium Amount	\$395.17
Net Amount Paid	\$304,210.03

Security Number	4
Original Maturity Date	December 01, 2005
Early Redemption Amount Requested	\$304,851.00
Accrued Interest Amount	\$1,273.38
Penalty Amount	\$0.00
Premium Amount	\$1,091.38
Net Amount Paid	\$307,215.76

Security Number	5
Original Maturity Date	June 01, 2006
Early Redemption Amount Requested	\$307,411.00
Accrued Interest Amount	\$1,490.44
Penalty Amount	\$0.00
Premium Amount	\$1,818.91
Net Amount Paid	\$310,720.35
Security Number	6
Original Maturity Date	December 01, 2006
Early Redemption Amount Requested	\$310,408.00
Accrued Interest Amount	\$1,705.63
Penalty Amount	\$0.00
Premium Amount	\$2,655.65
Net Amount Paid	\$314,769.28
Security Number	7
Original Maturity Date	June 01, 2007
Early Redemption Amount Requested	\$313,838.00
Accrued Interest Amount	\$1,919.56
Penalty Amount	\$0.00
Premium Amount	\$3,649.53
Net Amount Paid	\$319,407.09
Security Number	8
Original Maturity Date	December 01, 2007
Early Redemption Amount Requested	\$317,699.00
Accrued Interest Amount	\$2,124.85
Penalty Amount	\$0.00
Premium Amount	\$4,481.34
Net Amount Paid	\$324,305.19
Security Number	9
Original Maturity Date	June 01, 2008
Early Redemption Amount Requested	\$321,971.00
Accrued Interest Amount	\$2,321.53
Penalty Amount	\$0.00
Premium Amount	\$5,135.30
Net Amount Paid	\$329,427.83
Security Number	10
Original Maturity Date	December 01, 2008
Early Redemption Amount Requested	\$326,640.00
Accrued Interest Amount	\$2,501.39
Penalty Amount	\$0.00
Premium Amount	\$5,519.14
Net Amount Paid	\$334,660.53

Security Number	11
Original Maturity Date	June 01, 2009
Early Redemption Amount Requested	\$25,456,670.00
Accrued Interest Amount	\$205,705.20
Penalty Amount	\$0.00
Premium Amount	\$448,660.49
Net Amount Paid	\$26,111,035.69

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Main Menu*Updated April 2, 2004*

FIRST AMENDMENT
TO ESCROW DEPOSIT AGREEMENT

This First Amendment ("First Amendment"), dated as of May 27, 2004, amends the Escrow Deposit Agreement dated February 26, 2004 (the "Original Escrow Agreement") between City of Vancouver, Washington (the "City") and U.S. Bank National Association, Portland, Oregon (the "Escrow Agent"). Capitalized terms used in this First Amendment have the meanings given such terms in the Original Escrow Agreement.

WHEREAS, Section 4.2 of the Original Escrow Agreement provides the "Escrow Agent shall [at the direction of the City]. . . request the redemption of the Escrowed Securities and apply the proceeds . . . to purchase Government Obligations . . . only if (a) the Escrow Agent shall have received a written opinion from a firm of certified public accountants that such transaction will not cause the amount of money and securities in the Escrow Fund to be reduced below an amount sufficient to provide for the full and timely payment of principal of and interest on all of the remaining Refunded Bonds as they become due . . .; and (b) the Escrow Agent shall have received the unqualified written legal opinion of the City's bond counsel . . ."; and

WHEREAS, the City has requested that the Escrow Agent redeem the Escrowed Securities listed on Exhibit D (II) to the Original Escrow Agreement and utilize the proceeds, together with the cash balance on hand (Exhibit D(I)) to acquire the Government Obligations and establish a beginning cash balance as set forth on Annex A attached to this First Amendment; and

WHEREAS, the Escrow Agent has received the verification report dated May 27, 2004 from Causey Demgen & Moore, Inc. and bond counsel opinion required by Section 4.2 of the Agreement.

NOW, THEREFORE, the Escrow Agent and City agree as follows:

Section 1. Annex A to this First Amendment is approved as a substitute and replacement for Exhibit D (I) and (II) to the Original Escrow Agreement. The Government Obligations therein identified and the beginning cash balance are pledged irrevocably for the benefit of the owners of the Refunded Bonds. Annex B to this First Amendment is approved as a substitute and replacement for Exhibit E to the Original Escrow Agreement. Following the substitution of the Government Obligations therein identified, the City represents that, based upon the information provided in the Verification Report, the successive receipts of the principal of and interest on the Escrowed Securities will assure that the cash balance on deposit from time to time in the Escrow Fund will be at all times sufficient to provide moneys for transfer to the Paying Agent at the times and in the amounts required to pay the interest on the Refunded Bonds as such interest comes due and the principal of the Refunded Bonds as the Refunded Bonds are paid on an optional redemption date prior to maturity, all as more fully set forth in replacement Exhibit E attached hereto as Annex B.

Section 2. The Original Escrow Agreement, as amended by this First Amendment is hereby ratified and approved.

CITY OF VANCOUVER, WASHINGTON



Treasurer

U.S. BANK NATIONAL ASSOCIATION,
PORTLAND, OREGON

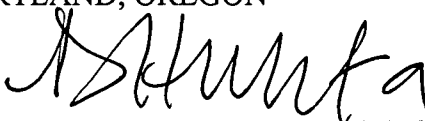
Authorized Signer

Section 2. The Original Escrow Agreement, as amended by this First Amendment is hereby ratified and approved.

CITY OF VANCOUVER, WASHINGTON

Treasurer

U.S. BANK NATIONAL ASSOCIATION,
PORTLAND, OREGON



Authorized Signer

ANNEX A

REPLACING EXHIBIT D (I) AND (II) TO ORIGINAL ESCROW AGREEMENT

I. Cash \$745,341.37

II. Other Obligations

Description	Maturity Date	Principal Amount	Interest Rate	Total Cost
SLG	12/01/2004	\$ 234,416	1.310%	\$ 234,416.00
SLG	06/01/2005	249,544	1.800	249,544.00
SLG	12/01/2005	251,790	2.210	251,790.00
SLG	06/01/2006	254,572	2.560	254,572.00
SLG	12/01/2006	257,831	2.880	257,831.00
SLG	06/01/2007	261,544	3.130	261,544.00
SLG	12/01/2007	265,636	3.350	265,636.00
SLG	06/01/2008	270,086	3.560	270,086.00
SLG	12/01/2008	274,894	3.750	274,894.00
SLG	06/01/2009	<u>25,405,047</u>	3.663	<u>25,405,047.00</u>
		<u>\$ 27,725,360</u>		<u>\$ 27,725,360.00</u>

ANNEX B

REPLACING EXHIBIT E TO ORIGINAL ESCROW AGREEMENT

Date	Escrow Requirement	Net Escrow Receipts	Excess Receipts	Cash Balance
05/27/2004	\$ --	\$ 745,341.37	\$ 745,341.37	\$ 745,341.37
06/01/2004	745,341.25	--	(745,341.25)	0.12
12/01/2004	745,341.25	745,341.33	0.08	0.20
06/01/2005	745,341.25	745,341.26	0.01	0.21
12/01/2005	745,341.25	745,341.36	0.11	0.32
06/01/2006	745,341.25	745,341.08	(0.17)	0.15
12/01/2006	745,341.25	745,341.56	0.31	0.46
06/01/2007	745,341.25	745,341.79	0.54	1.00
12/01/2007	745,341.25	745,340.63	(0.62)	0.38
06/01/2008	745,341.25	745,341.23	(0.02)	0.36
12/01/2008	745,341.25	745,341.70	0.45	0.81
06/01/2009	<u>25,870,341.25</u>	<u>25,870,340.44</u>	<u>(0.81)</u>	0.00
	\$ 33,323,753.75	\$ 33,323,753.75	\$ 0.00	

CITY OF VANCOUVER, WASHINGTON

**WATER AND SEWER REVENUE
REFUNDING BONDS, SERIES 2004
ESCROW RESTRUCTURING**

CAUSEY DEMGEN & MOORE INC.

Certified Public Accountants and Consultants

Suite 4650
1801 California Street
Denver, Colorado 80202-2681
Telephone: (303) 296-2229
Facsimile: (303) 296-3731
www.cdmcpa.com

May 27, 2004

City of Vancouver, Washington
610 Esther Street
Vancouver, Washington 98668

Preston, Gates & Ellis LLP
925 Fourth Avenue, Suite 2900
Seattle, Washington 98104

Piper Jaffray & Co.
1200 Fifth Avenue, #1700
Seattle, Washington 98101-361

Financial Guaranty Insurance Company
125 Park Avenue
New York, New York 10017

We have completed our engagement to verify the mathematical accuracy of (a) the computations relating to the adequacy of cash plus U.S. Treasury Securities (SLGs) to be held in escrow to pay the remaining debt service requirements of the Water and Sewer Revenue Bonds, 1999 (only those bonds maturing on and after June 1, 2010 as shown in Exhibit B-1 of our Prior Verification Report as defined herein) (herein collectively referred to as the "Refunded Bonds") issued by the City of Vancouver, Washington (herein referred to as the "City") and (b) the computations related to the blended yield on the escrowed securities purchased in connection with the issuance of the City's Water and Sewer Revenue Refunding Bonds, Series 2004 ("herein referred to as the "2004 Bonds"). We express no opinion on the attainability of the assumptions or the tax-exempt status of the 2004 Bonds. Our verification was performed solely on the schedules of proposed transactions, provided by Piper Jaffray & Co. (herein referred to as the "Structuring Agent") and which are reflected in Exhibits A through B-1, which were prepared by us in performing the verification of the mathematical accuracy of the computations in the schedules provided.

The scope of our engagement consisted of performing the procedures described herein. These procedures were performed in a manner that we deem to be appropriate.

The accompanying exhibits of prior and proposed transactions were prepared on the basis of assumptions and in accordance with the procedures described herein and in our verification report issued in conjunction with the issuance of the 2004 Bonds on February 26, 2004 (herein referred to as our "Prior Verification Report"). We did not independently confirm the information used with outside parties.

OUR UNDERSTANDING OF THE TRANSACTION

The City issued the 2004 Bonds on February 26, 2004 to advance refund the Refunded Bonds. A portion of the proceeds of the 2004 Bonds, together with (1) certain amounts contributed from the Debt Service Reserve Fund associated with the Refunded Bonds (herein referred to as the "DSRF Contribution") and (2) certain amounts contributed from the Debt Service Fund contribution associated with the Refunded Bonds (herein referred to as the "DSF Contribution"), were used to

CDM

purchase the Original Securities (as defined herein) and provide cash which were placed in an escrow account to advance refund the Refunded Bonds. As originally funded on February 26, 2004, the escrow account (herein referred to as the "Escrow Account") established to advance refund the Refunded Bonds contained the following:

- certain U.S. Treasury SLG maturing on June 1, 2004 through and including June 1, 2009 (herein referred to as the "Original Securities") and
- \$101.18 in cash.

On May 27, 2004, the City intends to (1) redeem the Original Securities, (2) replace the Original Securities with those U.S. Treasury SLGs shown in Exhibit A-2 (herein referred to as the "Replacement Securities"), (3) establish a beginning cash balance in the Escrow Account of \$745,341.37, and (4) remove from the Escrow Account \$999,481.77. The transaction described in the preceding sentence is herein referred to as the "Escrow Restructuring."

ESCROW ACCOUNT TRANSACTIONS

We verified the mathematical accuracy of the accompanying calculations of the transactions proposed to restructure the Escrow Account established to advance refund the Refunded Bonds.

The debt service requirements of the outstanding Refunded Bonds will be satisfied by the Replacement Securities (as described in Exhibit A-2), plus \$745,341.37 in cash. The Replacement Securities and cash will remain on deposit in the irrevocable Escrow Account until the Refunded Bonds are redeemed as described in the Prior Verification Report.

We read a copy of our Prior Verification Report insofar as the report describes (1) the remaining payment requirements of the Refunded Bonds and (2) the cash balance in the Escrow Account as of May 27, 2004. We assumed all debt service payments on the Refunded Bonds to be current as of May 27, 2004. We compared the above information set forth in such verification report with the related information contained in the schedules provided to us and found the information to be consistent.

We compared the subscribed interest rates of the Replacement Securities to be purchased and placed in the Escrow Account with the maximum allowable interest rates as published in the Department of the Treasury, Bureau of the Public Debt Form PD 4262 for May 11, 2004 and found the subscribed rates to be less than or equal to the maximum allowable rates for each respective maturity date.

We read a copy of the Early Redemption Calculations (Actual) Report for the Original Securities prepared by the Bureau of Public Debt and faxed to us by US Bank Corporate Trust Services on April 2, 2004 at 1:37 p.m. PST for the Original Securities insofar as such securities are described with respect to principal amount, redemption proceeds, accrued interest, and total redemption

proceeds. We compared the above information set forth in such document with the related information in the schedules provided to us and found the information to be consistent.

The computations provided to us and represented in Exhibits A through A-2, provide that the \$745,341.37 in cash plus the Replacement Securities will produce the amounts necessary to provide for the timely payment of the proposed debt payment schedule on the Refunded Bonds. These computations are mathematically correct.

**BLENDED YIELD ON THE INVESTMENT IN ESCROWED OBLIGATIONS
PURCHASED WITH 2004 BOND PROCEEDS AND THE DSRF CONTRIBUTION**

We verified the mathematical accuracy of the accompanying computation of the blended yield on the investment in escrowed U.S. Treasury Securities (SLGs) purchased with 2004 Bond proceeds and the DSRF Contribution as adjusted for the Escrow Restructuring based on the following:

• Assumed settlement date of the Escrow Restructuring	May 27, 2004
• Original settlement date	February 26, 2004
• Cost of the Original Securities purchased with 2004 Bond proceeds and the DSRF Contribution	\$28,401,939.00
• Cost of the Original Securities purchased with the DSF Contribution	\$372,670.00
• Redemption proceeds from the Original Securities purchased with 2004 Bond proceeds and the DSRF Contribution	\$29,096,590.30
• Purchase price of the Replacement Securities	\$27,725,360.00
• Redemption proceeds from the Original Securities purchased with the DSF Contribution	\$373,491.66

For purposes of this calculation, yield is defined as the rate of interest which, using the assumptions and procedures set forth herein, discounts the cash receipts from these escrowed securities (which consist of the Original Securities and the Replacement Securities), taking into effect the impact of this escrow restructuring transaction, to an amount equal to the purchase price of these escrowed securities. The computations were made using a 360-day year with interest compounded semi-annually and were based on the dates the funds are to be received in the Escrow Account, and assume that all cash balances are not reinvested.

We read a copy of the Prior Verification Report insofar as the report describes (1) the cost of the Original Securities purchased with 2004 Bond Proceeds and the DSRF Contribution (2) the cost of the Original Securities purchased with the DSF Contribution, and (3) the original settlement date. We read a copy of the Early Redemption Calculations (Actual) Report prepaid by the Bureau of Public Debt for the Original Securities faxed to us by US Bank Corporate Trust Services on April 2, 2004 at 1:37 p.m. PST insofar as such securities are described with respect to principal amount, redemption proceeds, accrued interest, and total redemption proceeds. We compared the above information set forth in such documents with the related information in the schedules provided to us and found the information to be consistent.

Based upon the procedures and information set forth above, the computations provided to us and represented in Exhibits B and B-1, which indicate that the blended yield on the escrowed securities purchased with 2004 Bond proceeds and the DSRF Contribution is 3.98242% (which is less than the yield on the 2004 Bonds of 3.98301% as shown in our Prior Verification Report), are mathematically correct.

USE OF THIS REPORT

It is understood that this report is solely for the information of and assistance to the addressees hereof in connection with the transaction described herein and is not to be used, relied upon, circulated, quoted or otherwise referred to for any other purpose without our written consent, except that (i) reference may be made to the report in any closing documents pertaining to the transaction described herein, (ii) the report may be used in its entirety as an exhibit to the escrow agreement for the Refunded Bonds, (iii) the report may be relied upon by Bond Counsel in connection with its opinions concerning the Refunded Bonds and the 2004 Bonds, (iv) the report may be relied upon by any rating agency or bond insurer that shall have rated or insured or that will rate or insure the Refunded Bonds or the 2004 Bonds, and (v) the report may be relied upon by the Escrow Agent for the Refunded Bonds.

* * * * *

The scope of our engagement is deemed by the addressees hereto to be sufficient to assist such parties in evaluating the mathematical accuracy of the various computations cited above. The sufficiency of this scope is solely the responsibility of the specified users of this report and should not be taken to supplant any additional inquiries or procedures that the users would undertake in their consideration of the escrowed securities restructuring related to the transaction described herein. We make no representation regarding the sufficiency of the scope of this engagement. This report should not be used by any party who does not agree to the scope set forth herein and who does not take responsibility for the sufficiency and appropriateness of such scope for their purposes.

We have no obligation to update this report because of events, circumstances, or transactions occurring subsequent to the date of this report.

Very truly yours,

Cathy Dargatzis & Moore Inc.

EXHIBIT A

**CITY OF VANCOUVER, WASHINGTON
WATER AND SEWER REVENUE REFUNDING BONDS
SERIES 2004**

**ESCROW ACCOUNT CASH FLOW
AS OF MAY 27, 2004**

Date	Total Cash Receipts from the Replacement Securities (Exhibit A-1)	Disbursement Requirements for the Refunded Bonds	Cash Balance
Beginning			
Balance:			\$745,341.37
01-Jun-04		\$745,341.25	0.12
01-Dec-04	\$745,341.33	745,341.25	0.20
01-Jun-05	745,341.26	745,341.25	0.21
01-Dec-05	745,341.36	745,341.25	0.32
01-Jun-06	745,341.08	745,341.25	0.15
01-Dec-06	745,341.56	745,341.25	0.46
01-Jun-07	745,341.79	745,341.25	1.00
01-Dec-07	745,340.63	745,341.25	0.38
01-Jun-08	745,341.23	745,341.25	0.36
01-Dec-08	745,341.70	745,341.25	0.81
01-Jun-09	25,870,340.44	25,870,341.25	0.00
	<u>\$32,578,412.38</u>	<u>\$33,323,753.75</u>	

CITY OF VANCOUVER, WASHINGTON
WATER AND SEWER REVENUE REFUNDING BONDS
SERIES 2004

CASH RECEIPTS FROM THE REPLACEMENT SECURITIES
AS OF MAY 27, 2004

Payment Date	SLGS (1) 01-Dec-04	SLGS (2) 01-Jun-05	SLGS (2) 01-Dec-05	SLGS (2) 01-Jun-06	SLGS (2) 01-Dec-06	SLGS (2) 01-Jun-07	SLGS (2) 01-Dec-07	SLGS (2) 01-Jun-08	SLGS (2) 01-Dec-08	SLGS (2) 01-Jun-09	Total Cash Receipts
01-Dec-04	\$234,416.00	\$249,544.00	\$251,790.00	\$254,572.00	\$257,831.00	\$261,544.00	\$265,636.00	\$270,086.00	\$274,894.00	\$25,405,847.00	\$745,341.33
01-Jun-05	1.310000%	1.800000%	2.210000%	2.560000%	2.880000%	3.130000%	3.350000%	3.560000%	3.750000%	3.663000%	745,341.26
01-Dec-05											745,341.36
01-Jun-06											745,341.08
01-Dec-06											745,341.56
01-Jun-07											745,341.79
01-Dec-07											745,340.63
01-Jun-08											745,341.23
01-Dec-08											745,341.70
01-Jun-09											25,870,340.44
											\$32,578,412.38

(1) U.S. Treasury Certificate of Indebtedness (State and Local Government Series).

(2) U.S. Treasury Note or Bond (State and Local Government Series).

**CITY OF VANCOUVER, WASHINGTON
WATER AND SEWER REVENUE REFUNDING BONDS
SERIES 2004**

**DESCRIPTION OF THE REPLACEMENT SECURITIES
AS OF MAY 27, 2004**

Type	Settlement Date	Maturity Date	Par Amount	Coupon Rate	Price	Total Cost
SLGS	27-May-04	01-Dec-04	\$234,416.00	1.310%	100.000000%	\$234,416.00
SLGS	27-May-04	01-Jun-05	249,544.00	1.800%	100.000000%	249,544.00
SLGS	27-May-04	01-Dec-05	251,790.00	2.210%	100.000000%	251,790.00
SLGS	27-May-04	01-Jun-06	254,572.00	2.560%	100.000000%	254,572.00
SLGS	27-May-04	01-Dec-06	257,831.00	2.880%	100.000000%	257,831.00
SLGS	27-May-04	01-Jun-07	261,544.00	3.130%	100.000000%	261,544.00
SLGS	27-May-04	01-Dec-07	265,636.00	3.350%	100.000000%	265,636.00
SLGS	27-May-04	01-Jun-08	270,086.00	3.560%	100.000000%	270,086.00
SLGS	27-May-04	01-Dec-08	274,894.00	3.750%	100.000000%	274,894.00
SLGS	27-May-04	01-Jun-09	25,405,047.00	3.663%	100.000000%	25,405,047.00
			<u>\$27,725,360.00</u>			<u>\$27,725,360.00</u>

EXHIBIT B

**CITY OF VANCOUVER, WASHINGTON
WATER AND SEWER REVENUE REFUNDING BONDS
SERIES 2004**

**BLENDED ESCROW YIELD CALCULATION
AS OF FEBRUARY 26, 2004**

Date	Total Cash Receipts from the Replacement Securities (Exhibit A)	Cost of the Replacement Securities (Exhibit A-2)	Redemption Proceeds of the Original Securities Purchased with 2004 Bond Proceeds and the DSRF Contribution (Exhibit B-1)	Total	Present Value at February 26, 2004 Using a Semi-Annually Compounded Yield of 3.98242%
27-May-04		(\$27,725,360.00)	\$29,096,590.30	\$1,371,230.30	\$1,357,630.12
01-Dec-04	\$745,341.33			745,341.33	723,224.70
01-Jun-05	745,341.26			745,341.26	709,104.88
01-Dec-05	745,341.36			745,341.36	695,260.89
01-Jun-06	745,341.08			745,341.08	681,686.83
01-Dec-06	745,341.56			745,341.56	668,378.46
01-Jun-07	745,341.79			745,341.79	655,329.69
01-Dec-07	745,340.63			745,340.63	642,534.48
01-Jun-08	745,341.23			745,341.23	629,990.57
01-Dec-08	745,341.70			745,341.70	617,691.45
01-Jun-09	25,870,340.44			25,870,340.44	21,021,106.93
	\$32,578,412.38	(\$27,725,360.00)	\$29,096,590.30	\$33,949,642.68	\$28,401,939.00

Cost of the Original Securities Purchased with 2004 Bond Proceeds and the DSRF Contribution

\$28,401,939.00

**CITY OF VANCOUVER, WASHINGTON
WATER AND SEWER REVENUE REFUNDING BONDS
SERIES 2004**

**DESCRIPTION OF THE ORIGINAL SECURITIES
AS OF MAY 27, 2004**

Type	Settlement Date	Maturity Date	Par Amount	Coupon Rate	Redemption Proceeds	Accrued Interest	Total Redemption Proceeds
Original Security Purchased with the DSF Contribution:							
SLGS	27-May-04	01-Jun-04	\$372,670.00	0.890%	\$372,667.00	\$824.66	\$373,491.66
Original Securities Purchased with 2004 Bond Proceeds and the DSRF Contribution:							
SLGS	27-May-04	01-Jun-04	139,318.00	0.890%	139,316.66	308.29	139,624.95
SLGS	27-May-04	01-Dec-04	300,342.00	1.070%	300,414.58	799.02	301,213.60
SLGS	27-May-04	01-Jun-05	302,791.00	1.360%	303,186.17	1,023.86	304,210.03
SLGS	27-May-04	01-Dec-05	304,851.00	1.680%	305,942.38	1,273.38	307,215.76
SLGS	27-May-04	01-Jun-06	307,411.00	1.950%	309,229.91	1,490.44	310,720.35
SLGS	27-May-04	01-Dec-06	310,408.00	2.210%	313,063.65	1,705.63	314,769.28
SLGS	27-May-04	01-Jun-07	313,838.00	2.460%	317,487.53	1,919.56	319,407.09
SLGS	27-May-04	01-Dec-07	317,699.00	2.690%	322,180.34	2,124.85	324,305.19
SLGS	27-May-04	01-Jun-08	321,971.00	2.900%	327,106.30	2,321.53	329,427.83
SLGS	27-May-04	01-Dec-08	326,640.00	3.080%	332,159.14	2,501.39	334,660.53
SLGS	27-May-04	01-Jun-09	25,456,670.00	3.250%	25,905,330.49	205,705.20	26,111,035.69
			<u>28,401,939.00</u>		<u>28,875,417.15</u>	<u>221,173.15</u>	<u>29,096,590.30</u>
			<u>\$28,774,609.00</u>		<u>\$29,248,084.15</u>	<u>\$221,997.81</u>	<u>\$29,470,081.96</u>

EXHIBIT C

**CITY OF VANCOUVER, WASHINGTON
WATER AND SEWER REVENUE REFUNDING BONDS
SERIES 2004**

**SOURCES AND USES OF FUNDS
AS OF MAY 27, 2004**

Sources of Funds:**Redemption proceeds from the Original Securities Purchased with:**

DSF Contribution	\$373,491.66
2004 Bond Proceeds and the DSRF Contribution	29,096,590.30
Beginning Cash in Escrow	101.18
Total Sources of Funds	<u>\$29,470,183.14</u>

Uses of Funds:

Beginning Escrow Account Cash Balance	\$745,341.37
Cost of the Replacement Securities	27,725,360.00
Cash Released to the City	999,481.77
Total Uses of Funds	<u>\$29,470,183.14</u>

PiperJaffray.

1200 FIFTH AVENUE, SUITE 1500
P.O. BOX 34930
SEATTLE, WA. 98124-1930

CLOSING MEMORANDUM

		<u>Phone Number</u>	<u>Fax Number</u>
To:	Paul Lewis, Manager, Financial & Management Svcs.	(360) 619-1069	(360) 619-1083
	Carrie Lewellen, Treasurer	(360) 619-1082	(360) 619-1083
	Cynthia Weed, Preston Gates & Ellis LLP	(206) 370-7801	(206) 623-7022
	Kerry White, Preston Gates & Ellis LLP	(206) 370-5766	(206) 623-7022
	Dyan Huhta, US Bank Trust National Association	(206) 344-4616	(206) 344-4630
	Linda McConkey, US Bank Trust National Association	(503) 275-5659	(503) 275-5738
	Jack Blumenthal, Causey Demgen & Moore	(303) 672-9890	(303) 296-3731
From:	Richard A. Schober, Jr., Vice President	(206) 287-8843	(206) 287-8895
	Doug Campbell, Managing Director	(612) 303-2121	(612) 303-0334
	Chris Higgins, Assistant Vice President	(206) 287-8845	(206) 287-8895
Date:	May 25, 2004		
Re:	\$26,250,000 City of Vancouver, Washington Water and Sewer Revenue Refunding Bonds, 2004 Escrow Restructure		

The purpose of this memo is to inform all interested parties of the details pertaining to the closing of the above-referenced escrow restructure:

Closing: Thursday, May 27, 2004, 9:00 a.m. (Pacific Time)

Location: Preston Gates & Ellis
925 Fourth Ave, Suite 2900
Seattle, WA 98104-1158

The closing will be held via conference call.

Sources & Uses of Funds:

Sources of Funds:

Redemption proceeds from the original
securities purchased with:
Debt Service Fund Contribution..... \$373,491.66
2004 Bond Proceeds and DSRF Contribution.... 29,096,590.30
Beginning cash in escrow 101.18
Total Sources of Funds: \$29,470,183.14

Uses of Funds:

Beginning escrow account balance 745,341.37
Cost of the replacement securities 27,725,360.00
Cash released to the City 999,481.77
Total Uses of Funds: \$29,470,183.14

Wire Instructions:

One (1) wire will be required to close this escrow restructure transaction. Wire instructions are as follows:

Wire # 1:

U.S. Bank - Federal Funds Wire Instructions

U.S. Bank will wire federal funds to Bank of America in the amount of \$999,481.77.

Wire Amount:	\$999,481.77
	Washington State Treasurer Local
	Investment Pool
Wire To:	Bank of America, Olympia Branch
ABA No:	026009593
For Account:	62048509
Reference:	City of Vancouver, Washington

Escrow Restructure:

The cash flow of the restructured escrow can be seen in Exhibit A of the attached verification report. The Escrow Agent will purchase the new replacement securities on May 27th as described in Exhibit A-2 of the attached verification report.

It has been a pleasure working with you on this transaction. Should you have any questions, please call Dick Schober or Chris Higgins at the numbers referenced above.

May 27, 2004

City of Vancouver, Washington

Piper Jaffray & Co.
Seattle, WA

U.S. Bank National Association
Portland, Oregon

Re: City of Vancouver, Washington, Water and Sewer Revenue Refunding Bonds,
2004 - \$26,250,000 (the "Refunding Bonds")

Ladies and Gentlemen:

We acted as bond counsel in connection with the issuance by the City of Vancouver, Washington (the "City") of the Refunding Bonds. The proceeds of the Refunding Bonds were used to acquire U.S. Government Obligations – State and Local Government Series ("Escrowed Securities") under the terms of an Escrow Deposit Agreement, dated February 26, 2004 (the "Original Escrow Agreement") between the City and U.S. Bank National Association, as escrow agent (the "Escrow Agent"). Capitalized terms used in this opinion that are not otherwise defined, have the meanings given such terms in the Original Escrow Agreement.

At the direction of the City, the Escrow Agent has redeemed the Escrowed Securities and utilized the proceeds, together with the cash balance on hand in the Escrow Fund to purchase other U.S. Government Obligations – State and Local Government Series ("Government Obligations") and establish a cash balance in the Escrow Fund on this date. In connection with the substitution of the Government Obligations, the City will receive a disbursement from the Escrow Fund to be deposited in the debt service fund for the Refunding Bonds. Expenses of the transaction will be paid by the City from funds not otherwise expected to be available to pay debt service on the Refunding Bonds. The City has executed a First Amendment, dated May 27, 2004 ("First Amendment") to the Original Escrow Agreement to reflect the transactions occurring on this date.

We have examined the following:

(a) The closing transcript for the Refunding Bonds, including the schedules and opinions prepared with respect to the yield of the Refunding Bonds and the yield and sufficiency on the investments deposited in the trust account established in connection with the issuance of the Refunding Bonds;

(b) The final verification report dated as of May 27, 2004 ("Verification Report") of Causey Demgen & Moore Inc., certified public accountants, regarding the mathematical accuracy of the schedules prepared by Piper Jaffray & Co. with respect to the sufficiency of the Government Obligations to pay the principal of and the interest on the Refunded Bonds under the terms of the Original Escrow Agreement, as amended by the First Amendment; and

(c) Such other documents, including the First Amendment, laws, opinions and information as we deemed relevant and necessary in rendering these opinions.

With your permission, we have relied upon the Verification Report, without independent analysis as to the sufficiency and adequacy of the Government Obligations to pay the Refunded Bonds on the dates and times specified in the Original Escrow Agreement, as amended by the First Amendment. We offer no opinion as to the mathematical accuracy of any calculations performed by Piper Jaffray & Co. or Causey Demgen & Moore, Inc. as described in the Verification Report and have made no independent verification of the mathematical accuracy of such calculations.

From such examination and based upon the facts and circumstances described, we are of the opinion that:

The substitution of the Government Obligations is authorized under the Original Escrow Agreement and will not cause the Refunding Bonds to become subject to federal income taxation under Section 103 of the Internal Revenue Code of 1986, as amended, (the "Code") or an "arbitrage bond" under Section 148 of the Code or any regulations promulgated thereunder.

Very truly yours,

PRESTON GATES & ELLIS LLP

By 
Cynthia M. Weed