



SHORELINE CITY COUNCIL SPECIAL MEETING

Wednesday, November 29, 2006
1:00 p.m.

Shoreline City Hall
Conference Room 305

	<u>Page</u>	<u>Estimated Time</u>
1. CALL TO ORDER		1:00
2. ROLL CALL		1:00
3. ACTION ITEMS		
(a) Parks Bond:		1:05
Ordinance No. 453 adopting a system of registration of bonds and obligations of the City	<u>1</u>	
Ordinance No. 454 relating to contracting indebtedness; providing for the issuance, specifying the maturities, interest rates, terms and covenants of \$18,795,000 par value of Unlimited Tax General Obligation Bonds, 2006, authorized by the qualified voters of the City at a special election held therein pursuant to Ordinance No. 409; establishing a bond redemption fund and [a project] fund; and approving the sale and providing for the delivery of the bonds to _____ of _____.	<u>9</u>	
4. ADJOURNMENT		1:30

The Council meeting is wheelchair accessible. Any person requiring a disability accommodation should contact the City Clerk's Office at 546-8919 in advance for more information. For TTY service, call 546-0457. For up-to-date information on future agendas, call 546-2190 or see the web page at www.cityofshoreline.com.

CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

AGENDA TITLE: Adoption of Ordinance No. 453, adopting a system of registration of bonds and obligations of the City of Shoreline
DEPARTMENT: Finance
PRESENTED BY: Debbie Tarry, Finance Director

PROBLEM/ISSUE STATEMENT:

As a condition of municipal bonds having interest earnings exempt from federal income tax, Section 149(a) of the Internal Revenue Code of 1986 requires that all municipal bonds with maturities extending beyond one year be registered. Registration is a bookkeeping transaction to record the names of all registered owners.

Ordinance No. 453 appoints the Finance Director to be the Registrar for any debt instruments that have a fixed maturity date or have a maturity of less than one year. For debt instruments with a maturity date in excess of one year, the ordinance appoints the Fiscal Agent of the State of Washington as the Registrar. Currently this is the Bank of New York. Since the Park Bonds have a fifteen year maturity schedule the City will use the Bank of New York as the Registrar for the Park Bonds. The City will use the State's contract for establishing the duties and compensation to the Bank of New York.

One of the primary responsibilities of the registrar includes maintaining a list of all registered owners of bonds and making the principal and interest payments to the registered owners,

FINANCIAL IMPACT:

The cost for the Registrar will be paid through the property tax levy assessed to repay the general obligation bonds.

RECOMMENDATION

Staff recommends that Council adopt Ordinance No. 453, adopting a system of registration of bonds and obligations of the City.

Approved By: City Manager  City Attorney _____

CITY OF SHORELINE, WASHINGTON

ORDINANCE NO. 453

AN ORDINANCE adopting a system of registration of bonds and obligations of the City.

Passed November 29, 2006

This document prepared by:

*Foster Pepper PLLC
1111 Third Avenue, Suite 3400
Seattle, Washington 98101
(206) 447-4400*

CITY OF SHORELINE, WASHINGTON

ORDINANCE NO. 453

AN ORDINANCE adopting a system of registration of bonds and obligations of the City.

WHEREAS, Section 149(a) of the Internal Revenue Code of 1986, as amended, requires municipal bonds and obligations offered to the public, having a maturity of more than one year, to be in registered form as a condition of the exclusion from gross income for federal income tax purposes of the interest on those bonds and obligations; and

WHEREAS, RCW 39.46.030 authorizes cities to establish a system of registering the ownership of their bonds or obligations as to principal and interest, or principal only; NOW, THEREFORE,

THE CITY COUNCIL OF THE CITY OF SHORELINE, WASHINGTON, DO ORDAIN as follows:

Section 1. Definitions. The following words shall have the following meanings when used in this ordinance:

(a) “Bond” or “bonds” has the meaning defined in RCW 39.46.020(1), as the same may be amended from time to time.

(b) “City” means the City of Shoreline, Washington.

(c) “Fiscal Agencies” means the duly appointed fiscal agencies of the State of Washington serving as such at any given time.

(d) “Obligation” or “obligations” has the meaning defined in RCW 39.46.020(3), as the same from time to time may be amended.

(e) “Registrar” means the person, persons or entity designated by the City to register ownership of bonds or obligations under this ordinance or under an ordinance of the City authorizing the issuance of such bonds or obligations.

Section 2. Findings. The City Council of the City finds that it is in the City’s best interest to establish a system of registering the ownership of the City’s bonds and obligations in the manner permitted by law.

Section 3. Adoption of Registration System. The City adopts the following system of registering the ownership of its bonds and obligations.

(a) **Registration Requirement.** All bonds and obligations offered to the public, having a maturity of more than one year, on which the interest is intended to be excluded from gross income for federal income tax purposes, shall be registered as to both principal and interest as provided in this ordinance.

(b) **Method of Registration.** The registration of all City bonds and obligations required to be registered shall be carried out either by

1) a book entry system of recording the ownership of the bond or obligation on the books of the Registrar, whether or not a physical instrument is issued; or

2) recording the ownership of the bond or obligation and requiring as a condition of the transfer of ownership of any bond or obligation the surrender of the old bond or obligation and either the reissuance of the old bond or obligation or the issuance of a new bond or obligation to the new owner.

No transfer of any bond or obligation subject to registration requirements shall be effective until the name of the new owner and the new owner’s mailing address, together with such other information deemed appropriate by the Registrar, shall be recorded on the books of the Registrar.

(c) **Denominations.** Except as may be provided otherwise by the ordinance authorizing their issuance, registered bonds or obligations may be issued and reissued in any

denomination up to the outstanding principal amount of the bonds or obligations of which they are a part. Such denominations may represent all or a part of a maturity or several maturities and on reissuance may be in smaller amounts than the individual denominations for which they are reissued.

(d) Appointment of Registrar. Unless otherwise provided in the ordinance authorizing the issuance of registered bonds or obligations, the Finance Director shall be the Registrar for all registered interest-bearing warrants, installment contracts, interest-bearing leases, and other registered bonds or obligations not usually subject to trading without a fixed maturity date or maturing one year or less after issuance and the Fiscal Agencies shall be the Registrar for all other City bonds and obligations without a fixed maturity date or maturing more than one year after issuance.

(e) Duties of Registrar. The Registrar shall serve as the City's authenticating trustee, transfer agent, registrar, and paying agent for all registered bonds and obligations for which he, she, or it serves as Registrar and shall comply fully with all applicable federal and state laws and regulations respecting the carrying out of those duties.

The rights, duties, responsibilities and compensation of the Registrar shall be prescribed in each ordinance authorizing the issuance of the bonds or obligations, which rights, duties, responsibilities, and compensation shall be embodied in a contract executed by the City and the Registrar, except that (i) when the Fiscal Agencies serve as Registrar, the City adopts by reference the contract between the State Finance Committee of the State of Washington and the Fiscal Agencies in lieu of executing a separate contract and prescribing by ordinance the rights, duties, obligations and compensation of the Registrar, and (ii) when the Finance Director serves as Registrar, a separate contract shall not be required.

In all cases when the Registrar is not the Fiscal Agencies and the bonds or obligations are assignable, the ordinance authorizing the issuance of the registered bonds or obligations shall specify the terms and conditions of

- 1) making payments of principal and interest;
- 2) printing any physical instruments, including the use of identifying numbers or other designation;
- 3) specifying record and payment dates;
- 4) determining denominations;
- 5) establishing the manner of communicating with the owners of the bonds or obligations;
- 6) establishing the methods of receipting for the physical instruments for payment of principal, the destruction of such instruments and the certification of such destruction;
- 7) registering or releasing security interests, if any; and
- 8) such other matters pertaining to the registration of the bonds or obligations authorized by such ordinance as the City may deem to be necessary or appropriate.

Section 4. Statement of Transfer Restrictions. Any physical instrument issued or executed by the City subject to registration under this ordinance shall state that the principal of and interest on the bonds or obligations shall be paid only to the owner thereof registered as such on the books of the Registrar as of the record date defined in the instrument and to no other person, and that such instrument, either principal or interest, may not be assigned except on the books of the Registrar.

PASSED BY THE CITY COUNCIL ON NOVEMBER 29, 2006.

Mayor Robert L. Ransom

ATTEST:

APPROVED AS TO FORM:

Scott Passey
City Clerk

Ian Sievers
City Attorney

CERTIFICATION

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

1. The attached copy of Ordinance No. ____ (the "Ordinance") is a full, true and correct copy of an ordinance duly passed at a special meeting of the City Council of the City held at the regular [a special] meeting place thereof on November 29, 2006, as that ordinance appears on the minute book of the City; and the Ordinance will be in full force and effect five days after publication in the City's official newspaper; and

2. Written notice specifying the time and place of the special meeting and noting the business to be transacted was given to all members of the City Council by mail or by personal delivery at least 24 hours prior to the special meeting, a true and complete copy of which notice is attached hereto as Appendix 1;

3. No local radio or television stations, or newspapers of general circulation, have on file with the City a written request to be notified of any special meetings; **[OR]** Written notice of the special meeting was given to each local radio or television station and to each newspaper of general circulation that has on file with the City a written request to be notified of special meetings, or to which such notice customarily is given;

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

IN WITNESS WHEREOF, I have hereunto set my hand this ____ day of November, 2006.

CITY OF SHORELINE, WASHINGTON

Scott Passey, City Clerk

CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

AGENDA TITLE:	Adoption of Ordinance No. 454, providing for the issuance, specifying the maturities, interest rates, terms and covenants of \$18,795,000 par value Unlimited Tax General Obligation Bonds
DEPARTMENT:	Finance
PRESENTED BY:	Debbie Tarry, Finance Director

PROBLEM/ISSUE STATEMENT:

In May 2006 the voters approved the issuance of up to \$18,795,000 of unlimited tax general obligation bonds for the purpose of open space acquisition and park improvements.

The City issued a Preliminary Official Statement (Attachment A) on November 13, 2006. The Official Statement (OS) will be used by the bond underwriter (purchaser of the bonds) to determine the interest rate offered to buy the City's bonds. The City is currently accepting bids on the bonds and will open those bids at 8 a.m. on November 29th. The Council is meeting at 1 p.m. on that day, in a special meeting, to authorize the issuance of the bonds to the lowest bidder. Council will do this by adopting Ordinance No. 454 (Attachment B). The reason that the Council must award the bid on the same day that the bids are opened is that the bids are only valid for one day as the financial market conditions are always changing. Since the bids on the bonds will not be opened until the morning of November 29th, Council will notice that both the OS and Ordinance No. 454 do not list the name of the purchaser of the bonds, the interest rates, or the annual interest payments. These will be completed by Hugh Spitzer, the City's bond attorney, following the bid opening. The finalized ordinance will be available at the Special Council Meeting on November 29th.

Although the Council will be accepting the bid on the bonds and authorizing the issuance of the bonds on November 29th, the bonds will not settle until December 13th. This will be the day that the City actually receives the proceeds from the bonds.

Ordinance No. 454 contains all the required provisions for the issuance of the bonds including such things as payment of bonds, redemption requirements, pledging to levy taxes to redeem the bonds, establishment of the bond registrar, approval of the sale and bid award of the bonds.

FINANCIAL IMPACT:

The voters approved to pay an excess property levy to repay the bonds. In 2007 the City will levy \$1,800,000 in property tax for this purpose. The estimated property tax rate for this levy is \$0.285 per \$1,000 assessed valuation.

RECOMMENDATION

Staff recommends that Council adopt Ordinance No. 454, providing for the issuance of the \$18,795,000 par value of Unlimited Tax General Obligation Bonds.

Approved By: City Manager  City Attorney ____

Attachments: Attachment A – Preliminary Official Statement
Attachment B – Draft Ordinance No. 454

SALE DATE: NOVEMBER 29, 2006
SALE TIME: 8:00 A.M., PACIFIC TIME

PRELIMINARY OFFICIAL STATEMENT DATED NOVEMBER 13, 2006

BOOK-ENTRY ONLY
NEW ISSUE

STANDARD & POOR'S RATING: AA-
(See the caption "BOND RATING" herein.)

In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the internal Revenue Code of 1986, as amended (the "Code") that must be satisfied subsequent to the issue date of the Bonds, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals. However, while interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on Bonds received by certain S corporations may be subject to tax, and interest on the Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. Receipt of interest on the Bonds may have other federal tax consequences for certain taxpayers. See the captions "TAX EXEMPTION" and "CERTAIN OTHER FEDERAL TAX CONSEQUENCES" herein.

CITY OF SHORELINE, WASHINGTON \$18,795,000* UNLIMITED TAX GENERAL OBLIGATION BONDS, 2006

DATED: Date of Initial Delivery

DUE: December 1, as shown below

The City of Shoreline, Washington (the "City") Unlimited Tax General Obligation Bonds, 2006 (the "Bonds") will be issued in fully registered form, and when issued will be registered in the name of Cede & Co., as bond owner and nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. The Bonds will be initially issued in Book-Entry form only in the denomination of \$5,000 or any integral multiple thereof within a single maturity. Purchasers will not receive certificates representing their interest in the Bonds purchased. The Bonds will bear interest payable on June 1, 2007, and semiannually thereafter on December 1 and June 1 of each year, to the maturity or prior redemption of the Bonds. The principal of and interest on the Bonds are payable by the fiscal agency of the State of Washington, currently The Bank of New York, New York, New York and, (the "Fiscal Agent" or "Bond Registrar"). For so long as the Bonds remain in a "Book-Entry only" transfer system, the Bond Registrar will make such payments only to DTC, which will in turn remit such principal and interest to the DTC participants for subsequent disbursement to Beneficial Owners of the Bonds. See Appendix B, "DTC & BOOK-ENTRY SYSTEM" hereto.

MATURITY SCHEDULE*

Due December 1	Amount	Rate %	Yield or Price %	CUSIP Numbers	Due December 1	Amount	Rate %	Yield or Price %	CUSIP Numbers
2007	\$ 915,000				2015	\$1,300,000			
2008	950,000				2016	1,345,000			
2009	1,000,000				2017	1,395,000			
2010	1,045,000				2018	1,450,000			
2011	1,100,000				2019	1,505,000			
2012	1,150,000				2020	1,565,000			
2013	1,200,000				2021	1,625,000			
2014	1,250,000								

The Bonds maturing on or after December 1, 2017, are subject to early redemption, at the option of the City, at any time on or after December 1, 2016, as a whole or in part within one or more maturities selected by the City at a price of par, plus accrued interest to the date fixed for redemption. See "DESCRIPTION OF THE BONDS – Redemption Provisions" herein.

The Bonds are unlimited tax general obligation bonds and are secured by the full faith, credit and resources of the City. The City, as authorized by law and the Ordinance of its Council, has irrevocably pledged to levy taxes annually without limitation as to rate or amount on all of the taxable property within the City in an amount sufficient, together with other money legally available and to be used therefore, to pay when due the principal of and interest on the Bonds, and the full faith, credit and resources of the City are pledged irrevocably for the annual levy and collection of those taxes and the prompt payment of that principal and interest.

The Bonds are offered by the Underwriter when, as and if issued, with the approving legal opinion of Foster Pepper PLLC, Bond Counsel and Disclosure Counsel, Seattle, Washington. It is expected that the Bonds in Book-Entry form will be ready for delivery through the facilities of DTC in New York, New York, by Fast Automated Securities Transfer, on or around December 13, 2006.

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

*Preliminary, subject to change.

No dealer, broker, salesperson, or any other person has been authorized by the City to give any information or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the City. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor will there be any sale of the Bonds, by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information set forth herein has been furnished by the City, DTC and certain other sources that the City believes to be reliable. However, the City makes no representation regarding the accuracy or completeness of the information provided in Appendix D—Book-Entry Transfer System, which has been furnished by DTC. The information and expressions of opinion in this Official Statement are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder will, under any circumstances, create an implication that there has been no material change in the affairs of the City since the date of this Official Statement. Any statements made in this Official Statement involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact or representations that the estimates will be realized.

Neither the City's independent auditors, nor any other independent accountants, have compiled, examined or performed any procedures with respect to the projected financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the prospective financial information.

This Official Statement is not to be construed as a contract with the purchasers of the Bonds.

The Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon a specific exemption contained in such act, nor have they been registered under the securities laws of any state.

Pursuant to the Bond Ordinance, the City has deemed "final" this Preliminary Official Statement as of its date, except for the omission of information dependent on the pricing of the Bonds, for the purpose of compliance with Rule 15c2-12(b)(1) of the Securities and Exchange Commission. This Preliminary Official Statement is subject to revision, completion and amendment in a final Official Statement.

CUSIP Numbers

The CUSIP numbers are included on the 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 SHORELINE, WASHINGTON

17544 Midvale Avenue North

Shoreline, WA 98133

(206) 546-1700

www.cityofshoreline.com*

MAYOR AND CITY COUNCIL

Member	Position	Term Expires
Robert Ransom	Mayor	December 31, 2007
Maggie Fimia	Deputy Mayor	December 31, 2007
Ronald Hansen	Councilmember	December 31, 2009
Rich Gustafson	Councilmember	December 31, 2007
Janet Way	Councilmember	December 31, 2009
Cindy Ryu	Councilmember	December 31, 2009
Keith McGlashan	Councilmember	December 31, 2009

APPOINTED OFFICIALS

Robert Olander	City Manager
Julie Modrzejewski	Assistant City Manager
Debbie Tarry	Finance Director
Richard Deal	Director of Parks, Recreation & Cultural Services

BOND COUNSEL

Foster Pepper PLLC
Seattle, Washington

FINANCIAL ADVISOR

Steve Gaidos Consulting, LLC
Seattle, Washington

DISCLOSURE COUNSEL

Foster Pepper PLLC
Seattle, Washington

* The City's website is not part of this Official Statement and investors should not rely on information which is presented in the City's website in determining whether to purchase Bonds. This inactive textual reference to the County's website is not a hyperlink and does not incorporate the City's website by reference.

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Official Notice of Bond Sale

\$18,795,000*

CITY OF SHORELINE, WASHINGTON UNLIMITED TAX GENERAL OBLIGATION BONDS, 2006

Electronic and sealed bids for purchase of the City of Shoreline Unlimited Tax General Obligation Bonds, 2006 (the "Bonds") will be received by the City of Shoreline, Washington (the "City"), by the Finance Director via Bidcomp's electronic bidding service, Parity ("Parity"), in the manner described below, or, in the case of sealed bids, at the office of Foster Pepper PLLC, 1111 Third Avenue, Suite 3400, Seattle, Washington 98101, until

8:00 A.M., PACIFIC TIME, ON NOVEMBER 29, 2006

or such other day or time and under such other terms and conditions as may be established by the Finance Director and communicated by wire service not less than 24 hours prior to the time bids are to be received. A Sample Bid Form is attached following this Official Notice of Bond Sale. The City will make an official bid form (the "Official Bid Form") available to Parity and as described under "Bid Forms" at least 24 hours prior to the time bids are to be received.

Bids must be submitted either:

- (i) in a sealed envelope to the Finance Director, as described herein, or
- (ii) electronically via Parity in accordance with this notice. For further information about Parity, potential bidders may contact Parity at (212) 849-5067.

No bid will be received after the time for receiving bids specified above. All proper bids received with respect to the Bonds will be considered and acted on by the City Council on November 29, 2006.

DESCRIPTION OF THE BONDS

Bond Details

The Bonds will be dated the date of their initial delivery. Interest on the Bonds will be payable semiannually on each June 1 and December 1, beginning June 1, 2007.

Registration and Book-Entry Only System

The Bonds are issuable only as fully registered bonds and when issued will be registered in the name of CEDE & Co. as registered owner and nominee for the Depository Trust Company ("DTC"), New York, New York. DTC will act as initial securities depository for the Bonds. Purchases of the Bonds will be made in book-entry form, in the denomination of \$5,000 or any integral multiple thereof. Purchasers will not receive certificates representing their interest in the Bonds purchased. The principal of and interest on the Bonds are payable by the City's Bond Registrar, currently the fiscal agent of the State of Washington (currently The Bank of New York in New York, New York) to DTC, which is obligated in turn to remit such payments to its participants for subsequent disbursement to beneficial owners of the Bonds.

Election of Maturities

The successful bidder shall designate whether some or all of the principal amounts of the Bonds maturing on or after December 1, 2017, as set forth below, shall be retired on December 1 of each respective year as serial bonds maturing in such year or as amortization installments of Term Bonds maturing in the years specified by the bidder.

Term Bonds, if any, must consist of the total principal payments of two or more consecutive years and mature in the latest of those years. Bonds subject to optional redemption by the City may not be grouped with Bonds not subject to optional redemption by the City when creating any single maturity of Term Bonds that are subject to mandatory sinking fund redemption.

* Preliminary, subject to change.

<u>Years (December 1)</u>	<u>Serial Maturities or Amortization Installments⁽¹⁾</u>
2007	\$ 915,000
2008	950,000
2009	1,000,000
2010	1,045,000
2011	1,100,000
2012	1,150,000
2013	1,200,000
2014	1,250,000
2015	1,300,000
2016	1,345,000
2017	1,395,000 ⁽²⁾
2018	1,450,000 ⁽²⁾
2019	1,505,000 ⁽²⁾
2020	1,565,000 ⁽²⁾
2021	1,625,000 ⁽²⁾

(1) Preliminary, subject to change.

(2) These amounts will constitute principal maturities of the Bonds unless Term Bonds are specified by the successful bidder, in which case these amounts may constitute mandatory sinking fund redemptions of Term Bonds.

Redemption

The Bonds maturing on or before December 1, 2016, are not subject to redemption prior to maturity. The City reserves the right and option to redeem Bonds maturing on or after December 1, 2017, prior to their stated maturity dates at any time on and after December 1, 2016, as a whole or in part (within one or more maturities to be selected by the City and randomly within a maturity in such manner as the Bond Registrar may determine) at a price of par plus accrued interest to the date fixed for redemption.

Purpose

The Bonds are being issued to acquire property to preserve open spaces and natural areas, improve neighborhood parks, improve existing parks and facilities, improve and develop sports fields, and improve existing trails and provide new walking and fitness paths and to pay the issuance costs of the Bonds.

Security

The Bonds are unlimited tax general obligation bonds of the and are secured by the full faith, credit and resources of the City. The City, as authorized by law and the Ordinance of its Council has irrevocably pledged to levy taxes annually without limitation as to rate or amount on all of the taxable property within the City in an amount sufficient, together with other money legally available and to be used therefore, to pay when due the principal of and interest on the Bonds, and the full faith, credit and resources of the City are pledged irrevocably for the annual levy and collection of those taxes and the prompt payment of that principal and interest.

BIDDING INFORMATION AND AWARD

Interest Rate

Bidders are invited to submit bids for the purchase of the Bonds fixing the interest rate or rates that the Bonds will bear. Interest rates bid shall be in multiples of 1/8 or 1/100 of one percent, or both. No more than one rate of interest may be fixed for any one maturity. No interest rate may exceed the interest rate of any other bond by more than 2%.

Premium and Discount

No bid will be considered for the Bonds that is less than an amount equal to 98.8 percent of the par value of the Bonds nor more than an amount equal to 101 percent of the par value of the Bonds. Bidders must bid on the entire offering of the Bonds. All bids shall be without condition.

For the purpose of comparison only and not as a part of the bid, each bid shall state the true interest cost of the bid.

Bidding Process

Electronic Bids. If a bidder submits an electronic bid for the Bonds, such bidder thereby agrees to the following terms and conditions:

- (i) If any provision in this Official Notice of Bond Sale conflicts with information or terms provided to or required of the bidder by Parity, this Official Notice of Bond Sale (including any amendments issued by wire service) and the Official Bid Form shall control. Information provided by Parity to bidders shall form no part of any bid or of any contract between the successful bidder and the City unless that information is included in this Official Notice of Bond Sale or in the Official Bid Form provided by the City.
- (ii) The bidder is solely responsible for making necessary arrangements to access Parity for purposes of submitting a timely bid in compliance with the requirements of this Official Notice of Bond Sale (including any amendments issued by the City through a wire service) and the Official Bid Form to be made available by the City.
- (iii) The City shall have no duty or obligation to provide or assure access to Parity, and shall not be responsible for the proper operation of Parity or have any liability for, any delays or interruptions of, or any damages caused by, use or attempted use of Parity.
- (iv) Parity is not the City's agent, but rather is an acceptable bidder's agent for the bidder's convenience in submitting its bid to the City.
- (v) The City will regard the electronic transmission of each bid it receives through Parity (including information regarding the purchase price of the Bonds and interest rates for any maturity of the Bonds) as being submitted on the Official Bid Form to be made available by the City and executed on behalf of the named bidder by a duly authorized signatory.
- (vi) If an electronic bid is accepted by the City, this Official Notice of Bond Sale (including any amendments issued by the City through a wire service), the Official Bid Form to be made available by the City and the information regarding the purchase price of the Bonds, any Term Bonds specified, and the interest rates for any maturity of the Bonds that is submitted electronically to the City through Parity shall form a contract between the bidder and the City, and the bidder shall be bound by the terms of such contract whether or not the bidder in fact attempted or intended to submit a bid on those terms.

Sealed Bids. All sealed bids shall be made only on the Official Bid Form to be furnished by the City or on photocopies or facsimiles of such forms, and shall be sealed. Bids must not be submitted by fax directly to the City, but may be sent via fax to an agent for the bidder, for delivery by that agent to the bid site in a sealed envelope.

Bid Forms

A Sample Bid Form is attached following this Official Notice of Sale, but that sample is *not* the City's Official Bid Form. The Official Bid Form will be made available at least 24 hours prior to the time the bids are to be received. The City will provide the Official Bid Form to Parity. The Official Bid Form also can be obtained through either the City's Finance Director, Debbie Tarry, at (206) 546-0787, or the City's Financial Advisor, Steve Gaidos Consulting, LLC, at (425) 392-9322.

Good Faith Deposit

All bids must be backed by a good faith deposit in the amount of \$150,000. The good faith deposit shall be in the form of either a financial surety bond or a certified or bank cashier's check, each payable to the order of the City of Shoreline and received by the City not later than the time bids are to be received. Each such check will be returned promptly if the bid is not accepted. The City reserves the right to invest the deposit of the successful bidder pending payment for the Bonds, and the successful bidder will not receive credit for any earnings on such investment. The deposit will be applied to the purchase price of the Bonds.

If a financial surety bond is used, it must be from an insurance company the claims paying ability of which is rated in the highest rating category of Standard & Poor's, Moody's Investor's Service or Fitch Investor's Service Inc. and such bond must be submitted to the City or its Financial Advisor prior to the opening of the bids. Acknowledgement that such financial surety bond has been issued must be received by the City's Financial Advisor prior to the bid opening and must identify each bidder whose deposit is guaranteed. If the Bonds are awarded to a bidder using a financial surety bond, that bidder shall submit its good faith deposit to the City in the form of a certified or bank cashier's check or by wire transfer, no later than 2:00 p.m., Pacific Time, on the next business day following the award. If the deposit in such form is not received by that time, the City may draw on the financial surety bond to satisfy the deposit requirement. If the financial surety bond is called upon and the City has not received the good faith deposit in such form from the surety company that provided the bond within two business days following the bid award, the City may cancel the bid award and have no further obligation to that

bidder. The City may, in addition and without limitation, take such steps as it deems appropriate against the provider of the financial surety bond or the successful bidder or both to obtain the amount of the good faith deposit and, in the event the City cancels the bid award, retain the recovered amount as reasonable liquidated damages and not as a penalty.

The good faith deposit of the successful bidder shall be retained by the City as security for the performance of the successful bid and shall be applied to the purchase price of the Bonds upon the delivery of the Bonds to the successful bidder. Pending delivery of the Bonds, the good faith deposit may be invested for the sole benefit of the City. If the Bonds are ready for delivery and the successful bidder fails or neglects to complete the purchase of such Bonds within 30 days following the acceptance of its bid, the good faith deposit shall be retained by the City as reasonable liquidated damages and not as a penalty.

Award

The Bonds will be sold to the bidder making a bid conforming to the terms of the offering and which, on the basis of the City's determination of the lowest true interest cost, is the best bid. The true interest cost to the City will be the rate that, when used to discount to the date of the Bonds all future payments of principal and interest (using semiannual compounding and a 30/360 day basis), produces an amount equal to the bid amount, without regard to the interest accrued to the date of delivery of the Bonds. If there are two or more equal bids and those bids are the best bids received, the Finance Director will determine by lot which bid will be presented to the City Council.

The City reserves the right to reject any or all bids submitted and to waive any formality or irregularity in the bid or bidding process. If all bids are rejected, then the Bonds may be sold in the manner provided by law. Any bid presented after the time specified for the receipt of bids will not be accepted, and any bid not backed by the required good faith deposit at the time of opening that bid will not be read or considered. The successful bid shall remain in effect until 5:00 p.m., Pacific Time, on the date following such bid opening.

Adjustment of Principal Amounts and Bid Price After Bid Opening

The City reserves the right to increase or decrease the preliminary principal amount of any maturity shown on the Official Bid Form by \$5,000 increments in an amount not to exceed the greater of \$30,000 or 3% of the preliminary principal amount of that maturity. The price bid by the successful bidder will be adjusted by the City on a proportionate basis to reflect an increase or decrease in the principal amount and maturity schedule within 4 hours after the bid opening. In the event that the City elects to alter the bond size after the bid pursuant to this Official Notice of Sale, the underwriter's discount, expressed in dollars per thousand, will be held constant. The City will not be responsible in the event and to the extent that any adjustment affects (i) the net compensation to be realized by the successful bidder or (ii) the true interest cost of the winning bid or its ranking relative to other bids.

Issue Price Information

Upon award of the Bonds, the successful bidder shall advise the City and Bond Counsel of the initial reoffering prices to the public of each maturity of the Bonds (the "Initial Reoffering Prices"), for the City's inclusion in the final Official Statement for the Bonds. Simultaneously with or before delivery of the Bonds, the successful bidder shall furnish to the City and Bond Counsel a certificate in form and substance acceptable to Bond Counsel:

- (i) confirming the Initial Reoffering Prices,
- (ii) certifying that a *bona fide* offering of the Bonds has been made to the public (excluding bond houses, brokers and other intermediaries),
- (iii) stating the prices at which a substantial amount of each maturity of the Bonds was sold to the public (excluding bond houses, brokers and other intermediaries),
- (iv) stating the price at which any Bonds that remain unsold at the date of closing would have been sold on such date,
- (v) stating which maturities, if any, are amortization installments of Term Bonds maturing in the years specified by the bidder, and
- (vi) stating the offering price of each Bond sold to institutional or other investors at discount.

Insurance

Bids for the Bonds shall not be conditioned upon obtaining insurance or any other credit enhancement. Information regarding the Bonds and the City has been provided to AMBAC, FGIC, FSA, MBIA and XLCA. If these institutions qualify the Bonds for insurance, bidders may elect to insure the Bonds at their sole option and expense. Any increased costs of issuance of the Bonds resulting by reason of such insurance, unless otherwise paid, shall be paid by such bidder, but shall not, in any event, be paid by the City. Any failure of the Bonds to be so insured or of any such policy of insurance to be issued

shall not in any way relieve the purchaser of its contractual obligations arising from the acceptance of its proposal for the purchase of the Bonds.

The City will add administrative provisions relating to insurance to the documents for the Bonds, but will not make changes which adversely affect the City.

Modifications

The terms and conditions of this Official Notice of Bond Sale are subject to modification by the Finance Director. Any such modification will be communicated by wire service not less than 24 hours prior to the time the bids are to be received.

DELIVERY

The City will deliver the Bonds (consisting of one certificate for each maturity) to DTC in New York, New York, or to the Bond Registrar on behalf of DTC by Fast Automated Securities Transfer, prior to the date of closing. Closing shall occur within 30 days after the sale date. Settlement shall be in immediately available federal funds in Seattle, Washington, on the date of delivery.

If, prior to the delivery of the Bonds, the interest receivable by the owners of the Bonds becomes includable in gross income for federal income tax purposes, or becomes subject to federal income tax other than as described in the Official Statement for the Bonds, the successful bidder, at its option, may be relieved of its obligation to purchase the Bonds and in that case the good faith deposit accompanying its bid will be returned without interest.

Legal Opinion

The approving legal opinion of Foster Pepper PLLC, Seattle, Washington, Bond Counsel, will be provided to the purchaser at the time of the delivery of the Bonds. A no-litigation certificate will be included in the closing papers of the Bonds.

CUSIP Numbers

It is anticipated that CUSIP identification numbers will appear on the Bonds if requested by the purchaser, but neither the failure to insert such numbers on the Bonds nor any error with respect thereto shall constitute cause for a failure or refusal by the purchaser thereof to accept delivery of and pay for the Bonds in accordance with the terms of this Official Notice of Bond Sale. The purchaser is responsible for obtaining CUSIP numbers for the Bonds, and the charge of the CUSIP Bureau shall be paid by the purchaser.

CONTINUING DISCLOSURE UNDERTAKING

In order to assist bidders in complying with paragraph (b)(5) of SEC Rule 15c2-12, the City will undertake to provide certain annual financial information and notices of the occurrence of certain events, if material. A description of this undertaking is set forth in this Official Statement.

OFFICIAL STATEMENT AND OTHER INFORMATION

At closing, the City will furnish a certificate of an official or officials of the City, relying on the opinions of Bond Counsel where appropriate, stating that, to the best knowledge of such official(s) as of the date of the Official Statement and as of the date of delivery of the Bonds:

- (i) the information (including financial information) regarding the City contained in the Official Statement was and is true and correct in all material respects and did not and does not contain any untrue statement of a material fact or omit any statement or information which is necessary to make the statements therein, in light of the circumstances under which they were made, not misleading (however, the City will make no representation regarding Bond Counsel's form of opinion or the information provided by DTC, The Bank of New York or any entity providing bond insurance); and
- (ii) the descriptions and statements, including financial data, of or pertaining to other bodies and their activities contained in the Official Statement have been obtained from sources that the City believes to be reliable, and the City has no reason to believe that they are untrue in any material respect.

The Preliminary Official Statement is in a form that has been deemed final by the City for the purpose of paragraph (b)(1) of SEC Rule 15c2-12, but is subject to revision, amendment and completion in a final Official Statement, which the City will deliver, at the City's expense, to the purchaser through its designated representative not later than seven business days after the City's acceptance of the purchaser's bid. The City will provide no more than 100 copies of the final Official Statement without charge. Additional copies will be provided at the purchaser's expense.

By submitting the successful proposal, the purchaser's designated senior representative agrees to file the final Official Statement or cause it to be filed with the Municipal Securities Rulemaking Board within one business day following its receipt from the City.

The Preliminary Official Statement (with the Official Notice of Bond Sale and the Official Bid Form) and further information regarding the details of the Bonds may be obtained upon request to the City's Finance Director, 17544 Midvale Avenue North, Shoreline, Washington, 98133 (telephone: (206) 546-0787) or to Steve Gaidos Consulting LLC, 25519 SE 159th Street, Issaquah, Washington, 98027 (telephone: (425) 392-9322).

DATED at Shoreline, Washington, this ____ day of _____, 2006.

/s/

Debbie Tarry

Finance Director

SAMPLE Bid Form

This is a Sample Bid Form. The Official Bid Form will be available 24 hours prior to the time the bids are to be received. The City will provide the Official Bid Form to Parity. The Official Bid Form also can be obtained through either the City's Finance Director, Debbie Tarry, at (206) 546-0787, or the City's Financial Advisor, Steve Gaidos Consulting, LLC, at (425) 392-9322.

\$18,795,000⁽¹⁾

**CITY OF SHORELINE, WASHINGTON
UNLIMITED TAX GENERAL OBLIGATION BONDS, 2006**

Ms. Debbie Tarry
Finance Director
City of Shoreline
Shoreline, Washington

For the above-referenced bonds (the "Bonds") described in the Official Notice of Bond Sale, which is hereby made a part of this bid, and for all but not less than all of the Bonds, with interest rates per annum on the Bonds maturing on December 1 in the years and amounts set forth in this Official Bid Form as indicated below:

Years (December 1)	Serial Maturities or Amortization Amounts⁽¹⁾	Rates
2007	\$ 915,000	
2008	950,000	
2009	1,000,000	
2010	1,045,000	
2011	1,100,000	
2012	1,150,000	
2013	1,200,000	
2014	1,250,000	
2015	1,300,000	
2016	1,345,000	
2017	1,395,000 ⁽²⁾	
2018	1,450,000 ⁽²⁾	
2019	1,505,000 ⁽²⁾	
2020	1,565,000 ⁽²⁾	
2021	1,625,000 ⁽²⁾	

we offer to pay the sum of \$ _____
(which is not less than \$ _____⁽¹⁾ nor more than \$ _____⁽¹⁾).

In accordance with the terms of the Official Notice of Bond Sale, a good faith deposit in the amount of \$150,000 has been provided in the form of either a certified or bank cashier's check or a financial surety bond, each payable to the order of the City of Shoreline. The good faith deposit is to be applied in accordance with the terms of the Official Notice of Bond Sale if the Bonds are awarded to us. If the Bonds are not awarded to us and a check has been submitted, such check is to be returned to us. If the Bonds are not awarded to us and we provided the good faith deposit in the form of a surety bond, neither we nor the City have any further obligations with respect to the surety bond.

This bid is submitted in accordance with and subject to all provisions contained in the Official Notice of Bond Sale, including any amendments issued by the City through the wire service and, if applicable, the terms and conditions contained therein under "Bidding Process—Electronic Bids," which is incorporated by reference herein and made a part of this bid.

⁽¹⁾ Preliminary, subject to change.

If our proposal to purchase the Bonds is successful, the person at the designated senior representative's office whom the City or its representatives should contact regarding closing is _____ at the following telephone number:

_____.

Very truly yours,

Designated Representative

OFFICIAL STATEMENT
CITY OF SHORELINE, WASHINGTON
\$18,795,000*
UNLIMITED TAX GENERAL OBLIGATION BONDS, 2006

INTRODUCTION

The City of Shoreline, Washington (the "City"), a municipal corporation duly organized and existing under and by virtue of the laws of the State of Washington (the "State"), furnishes this Official Statement in connection with the offering of \$18,795,000* principal amount of Unlimited Tax General Obligation Bonds, 2006 (the "Bonds"). This Official Statement provides information concerning the City and the Bonds.

DESCRIPTION OF THE BONDS

Principal Amounts, Dates, Interest Rates, and Maturities

The Bonds are issuable in the principal amount of \$18,795,000* and will be dated and bear interest from their date of initial delivery to the Underwriter. The Bonds will mature on the dates and in the principal amounts as set forth on the cover page of this Official Statement. The Bonds will bear interest payable semiannually, on each June 1 and December 1, commencing June 1, 2007, at the rates set forth on the cover page of this Official Statement.

Interest on the Bonds will be computed on the basis of a 360-day year of twelve 30-day months.

Form, Denomination and Registration

The Bonds will be issued in fully registered form as to both principal and interest in the denomination of \$5,000 each or any integral multiple thereof within a single maturity. The Bonds, when issued, will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC").

DTC will act as securities depository for the Bonds. Individual purchases may be made in Book-Entry form only. Purchasers will not receive certificates representing their interest in the Bonds purchased. So long as Cede & Co. is the registered owner of the Bonds, as nominee of DTC, references herein to the registered owners or bond owners will mean Cede & Co. and will not mean the "Beneficial Owners" of the Bonds. In this Official Statement, the term "Beneficial Owner" will mean the person for which a DTC participant acquires an interest in the Bonds. See Appendix B, "DTC & BOOK-ENTRY SYSTEM" hereto.

Authorization and Purpose

The Bonds are issued in accordance with the provisions of the Constitution and ch. 39.36, 39.46 and 39.53 of the Revised Code of Washington ("RCW") and other applicable statutes of the State, pursuant to Ordinance No. ____ (the "Ordinance") of the City Council, passed on _____, 2006.

The Bonds are issued pursuant to an authorization to issue not more than \$18,795,000* of general obligation bonds for the purpose of acquiring property to preserve open spaces and natural areas, improve neighborhood parks, improve existing parks and facilities, improve and develop sports fields, and improve existing trails and provide new walking and fitness paths, which was approved by a favorable vote of the qualified electorate residing in the City at a special election held in the City on May 16, 2006. The final election results were as follows:

	Number of Votes	Percentage
Yes	7,072	70.35%
No	2,980	29.65
Total	<u>10,052¹</u>	<u>100.00%</u>

¹The total number of votes cast was more than 56% of the 17,924 votes cast in the City at the preceding State General Election held on November 8, 2005.

*Preliminary, subject to change.

Authorization of any general obligation bond issue requires that 40% of the number of those voting in the last general election must cast a ballot, and 60% of those voting must approve the issue. The King County Auditor's Office has certified the passage of these Bond elections.

Security for the Bonds

The Bonds are unlimited tax general obligation bonds and are secured by the full faith, credit and resources of the City. The City, as authorized by law and the Ordinance of its Council has irrevocably pledged to levy taxes annually without limitation as to rate or amount on all of the taxable property within the City in an amount sufficient, together with other money legally available and to be used therefore, to pay when due the principal of and interest on the Bonds, and the full faith, credit and resources of the City are pledged irrevocably for the annual levy and collection of those taxes and the prompt payment of that principal and interest.

The rights and remedies of anyone seeking enforcement of the Bonds are subject to applicable bankruptcy or insolvency laws or other similar laws generally affecting creditors' rights and principles of equity if equitable remedies are sought.

Redemption Provisions

The Bonds maturing in years 2007 through 2016, inclusive, are not subject to redemption prior to maturity. The City reserves the right and option to redeem the Bonds maturing on or after December 1, 2017, prior to their stated maturity dates at any time on or after December 1, 2016, as a whole or in part (within one or more maturities selected by the City and randomly within a maturity in such manner as the Bond Registrar shall determine), at par plus accrued interest to the date fixed for redemption.

Portions of the principal amount of any Bond, in increments of \$5,000 or any integral multiple thereof, may be redeemed. If less than all of the principal amount of any Bond is redeemed, upon surrender of that Bond at either of the principal offices of the Bond Registrar, there shall be issued to the registered owner, without charge therefore, a new Bond or Bonds, at the option of the registered owner, of the same maturity and interest rate in any of the denominations authorized by the Ordinance.

Notice of Redemption

The City shall cause notice of any intended redemption of Bonds to be given not less than 30 nor more than 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 at the time the Bond Registrar prepares the notice, and the requirements of this sentence shall be deemed to have been fulfilled when notice has been mailed as so provided, whether or not it is actually received by the owner of any Bond. Interest on Bonds called for redemption shall cease to accrue on the date fixed for redemption unless the Bond or Bonds called are not redeemed when presented pursuant to the call. In addition, the redemption notice shall be mailed within the same period, postage prepaid, to Moody's Investors Service, Inc., and Standard & Poor's at their offices in New York, New York, or their successors, to each NRMSIR or the MSRB and to such other persons and with such additional information as the City Finance Director shall determine, but these additional mailings shall not be a condition precedent to the redemption of Bonds.

Open Market Purchase

The City reserves the right and option to purchase any or all of the Bonds in the open market at any time at any price plus accrued interest to the date of purchase.

Failure to Redeem the Bonds

If any Bond is not redeemed when properly presented at its maturity or call date, the City, through its Fiscal Agent, shall be obligated to pay interest on that Bond at the same rate provided in the Bond from and after its maturity or call date until that Bond, both principal and interest, is paid in full or until sufficient money for its payment in full is on deposit in the bond redemption fund and the Bond has been called for payment by giving notice of that call to the registered owner of each of those unpaid Bonds.

Defeasance of the Bonds

In the event that money and/or direct obligations as such obligations are defined in chapter 39.53 RCW, as now or hereafter amended, maturing at such time or times and bearing interest to be earned thereon in amounts (together with such money, if necessary) sufficient to redeem and retire part or all of the Bonds in accordance with their terms, are set aside in a special account of the City to effect such redemption and retirement, and such moneys 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 redemption fund of the City 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 the Ordinance except the right to receive the moneys so set aside and pledged, and such Bonds shall be deemed not to be outstanding.

Procedure in the Event of Revisions of Book-Entry Transfer System

Both principal of and interest on the Bonds shall be payable in lawful money of the United States of America. For so long as all Bonds are in fully immobilized form, payments of principal and interest 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 15th day of the month preceding the interest payment date, and 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, provided, however, that if so requested in writing by the Registered Owner of at least \$100,000 principal amount of Bonds, interest will be paid by wire transfer on the date due to an account with a bank located within the United States.

SOURCES AND USES OF FUNDS

The proceeds of the Bonds are to be applied as follows:

Sources

Principal Amount of Bonds	\$ 18,795,000*
Net Premium/Discount	
Total Sources of Funds	\$

Uses

Deposit to Project Fund	
Costs of Issuance ¹ and Rounding	
Total Uses of Funds	\$

DEBT PAYMENT RECORD

The City has not previously issued bonds.

FUTURE FINANCING

Within the next year, the City anticipates entering into a lease-purchase agreement or issuing limited tax general obligation bonds in the approximate amount of \$13,000,000 to finance the acquisition of a new City Hall/Civic Center. Either obligation would pledge the full faith and credit of the City with the City's debt limits without a vote of the qualified electors. (See "AUTHORIZATION OF INDEBTEDNESS" below.)

AUTHORIZATION OF INDEBTEDNESS

The power of the City to contract debt of any kind is controlled and limited by State law. All debt must be set forth in accordance with detailed budget procedures and paid for out of identifiable receipts and revenues. The budget must be balanced for each fiscal year. It is unlawful for an officer or employee of the City to incur liabilities in excess of budgetary appropriations.

¹ Includes Bond Counsel fee, rating fee and bond insurance premium.

*Preliminary, subject to change.

General Obligation Indebtedness

Under the Constitution and statutes of the State, the City may incur two types of general obligation indebtedness (including bonds). The two types are primarily differentiated by the limits on the real and personal property taxes which may be collected for the payment thereof.

Limited tax general obligation indebtedness such as the Bonds is payable from taxes upon all the taxable property in the City which may be imposed by the City within the limitations prescribed by State statute without a vote of the people (sometimes referred to as “non-voted debt” or “non-voted bonds” or “councilmanic bonds”).

Unlimited tax general obligation indebtedness is payable from taxes without limitation as to rate or amount, imposed upon all taxable property in the City. Unlimited tax indebtedness may be incurred only after approval by 60% of the City voters at an election in which the total vote cast exceeds 40% of the votes cast at the last preceding general election of the City or State. Such unlimited tax indebtedness is sometimes referred to as “voted debt,” “voted bonds” or “unlimited tax bonds.”

Bonds issued to refund outstanding general obligation indebtedness of either type may be issued without voter approval.

Limits on Amount of General Obligation Indebtedness

State statutes limit the total principal amount of all City general obligation indebtedness incurred for “general” purposes, both limited tax and unlimited tax, to 2.5% of the actual value of taxable property within the City. Within this 2.5% limitation, non voted indebtedness is further limited to 1.5% of the value of such taxable property.

The City is additionally authorized to incur general obligation indebtedness for the following “special” purposes, with voter approval, in the total principal amount of up to the following percentages of the actual value of taxable property within the City: water, artificial light and sewers, 2.5%; open space and park facilities and facilities associated with economic development, 2.5%. The combination of unlimited tax and limited tax general obligation debt for all purposes cannot exceed 7.5% of the City’s assessed valuation.

The State statutory limits on City general obligation indebtedness described in this section are more restrictive than those contained in the State Constitution. Both the Constitutional and statutory debt limits may be exceeded if necessary to meet obligations made mandatory by State law or, if necessary, to maintain the corporate existence of the City.

In computing total general obligation indebtedness, the following “assets” may be deducted against the principal amount of indebtedness outstanding: (a) money and investments on deposit in general obligation bond retirement funds; (b) taxes (both current and delinquent) levied for the payment of general obligation indebtedness; and (c) delinquent (but not current) taxes due the general fund.

In addition to limits on the total principal amount of general obligation indebtedness described in this section, the Constitution and statutes of the State impose other limitations on the City’s levy of taxes upon real and personal property. (See “TAXING POWERS AND LIMITATIONS” herein.)

Authorization of Short-Term Debt

Any Washington municipal corporation may borrow money and issue short-term obligations, the proceeds of which may be used for any lawful purpose. Short-term obligations may be issued in anticipation of the receipt of revenues, taxes, or grants or the sale of (1) general obligation bonds if the bonds may be issued without the consent of the voters or if previously ratified by the voters; (2) revenue bonds if the bonds have been authorized by ordinance or resolution; or (3) local improvement district bonds if the bonds have been authorized by ordinance or resolution. These short-term obligations shall be repaid out of money derived from the source or sources in anticipation of which they were issued or from any money legally available for this purpose.

Additionally, the City may incur short-term indebtedness in the following ways: first, in an emergency, the Council members may put a plan into effect and authorize indebtedness outside the current budget. All expenditures for emergency purpose shall be paid by warrants from any available money in the fund properly chargeable with such expenditures. If there is insufficient money on hand in the fund, the warrants become

registered interest-bearing warrants. In adopting the budget for any fiscal year, the Council members shall appropriate funds to retire any outstanding registered warrants issued since the adoption of the last preceding budget. Second, the City may, without a vote of the electors, purchase property on a conditional sales contract if the total contract amount, together with the other non-voted general obligation indebtedness of the City, does not exceed 1.5% of the value of taxable property in the City; any item so purchased must be budgeted for payment in accordance with the terms of the contract.

STATUTORY DEBT LIMIT CALCULATION FOR THE CITY¹
(As of August 31, 2006)

2005 Assessed Valuation for Collection Year 2006²	\$ 6,036,457,123
General Purposes	
Non-Voted Debt Capacity (1.5% of Assessed Valuation)	\$ 90,546,857
Less: Councilmanic Bonds Outstanding	0
Less : Other Non-Voted Debt	0
Remaining Non-Voted General Obligation Debt Capacity	<u>\$ 90,546,857</u>
Voted Debt Capacity (2.5% of AV)	\$ 150,911,428
Less: Voted Bonds Outstanding	0
Less: Councilmanic Bonds Outstanding	0
Less: Other Non Voted Debt	0
Remaining Voted General Obligation Debt Capacity	<u>\$ 150,911,428</u>
Utility Purposes	
Voted Debt Capacity (2.5% of AV)	\$ 150,911,428
Less: Voted Bonds Outstanding	0
Remaining Capacity for Utility Purposes	<u>\$ 150,911,428</u>
Parks and Open Space and Economic Development Purposes	
Voted Debt Capacity (2.5% of AV)	\$ 150,911,428
Less: Voted Bonds Outstanding	0
Less: This Issue	18,795,000 ³
Remaining Capacity for Parks/Open Space & Economic Development Purposes	<u>\$ 132,116,428</u>
Total Remaining General Obligation Debt Capacity	<u><u>\$ 433,939,284</u></u>

Remainder of page left blank intentionally.

¹ Source: King County Department of Assessments and the City.

² Total taxable assessed valuation.

³ Preliminary, subject to change.

NET DIRECT DEBT AND ESTIMATED NET OVERLAPPING GENERAL OBLIGATION DEBT¹

Population	52,830
2006 Assessed Valuation	\$ 6,036,457,123

City of Shoreline, Washington

Direct Debt

Outstanding General Obligation Debt:

Outstanding Unlimited Tax General Obligation Debt ⁽¹⁾	\$ 18,795,000
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Outstanding Limited General Obligation Debt	0
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Total Net Direct Debt	\$ 18,795,000
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Estimated Overlapping Debt

King County	\$ 19,283,168
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School District No 412	108,465,058
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Port of Seattle	9,694,948
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Fire District No 4	10,824,975
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Rural Library District	3,138,831
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Total Overlapping Debt	\$ 151,406,980
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Total Net Direct and Estimated Overlapping Debt	\$ 170,201,980
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Key Ratios

Ratio of:

Net Direct Debt to Assessed Value	0.31%
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Net Direct and Estimated Overlapping Debt to Assessed Value	2.82%
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Per Capita:

Net Direct Debt	\$ 355.76
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Net Direct and Estimated Overlapping Debt	\$ 3,221.69
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Assessed Value	\$ 114,261.92
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⁽¹⁾ Includes this issue

TAXING POWERS AND LIMITATIONS

Pursuant to RCW 84.52.043, cities may levy, without a vote of the residents residing therein, a maximum of \$3.375 per thousand for general city purposes (the "regular levy"). Cities with full time firemen may levy an additional \$.225 per thousand to fund the city's Fireman's Pension Fund (RCW 41.16.060), thus creating a maximum annual levy rate of \$3.60 per thousand dollars of assessed valuation. The City is currently levying \$1.17674 per thousand dollars of taxable assessed valuation for its regular levy for collection year 2006.

According to RCW 27.12.390, any city or town annexed to a rural library district, island library district, or intercounty rural library district, such as the City, shall be entitled to levy up to \$3.60 per thousand dollars of assessed valuation less any regular levy made by such library district in the incorporated area, notwithstanding any other provision of law.

Levy Limitation

The regular property tax increase limitation (chapter 84.55 RCW) limits the total dollar amount of regular property taxes levied by an individual local taxing district such as the City to the amount of such taxes levied in the highest of the three most recent years multiplied by a limit factor, plus an adjustment at the previous year's

¹ Source: The City of Shoreline.

levy rate to account for taxes on new construction, annexations, improvements, State-assessed property and wind-power turbines assessed as real property.

Under Initiative 747 ("I-747") passed by the voters in 2001, the limit factor is the lesser of 101 percent of the highest levy in the three previous years, or 100 percent plus inflation, unless a greater amount is approved by a simple majority of the voters. On June 13, 2006, a King County Superior Court ruled that I-747 was unconstitutional and voided the Initiative and enjoined the State of Washington from enforcing the Initiative. In August 2006, the State Supreme Court granted a stay of that decision pending appeal. If the trial court's decision is upheld, the limit factor would return to its pre-2007 level (the lesser of 106% or 100% plus inflation). The City cannot predict whether the Superior Court decision invalidating the Initiative will be upheld or whether the Legislature may intervene to amend the law in the meantime.

RCW 84.55.092 allows the property tax levy to be set at the amount that would be allowed if the tax levy for taxes due in each year since 1986 had been set at the full amount allowed under chapter 84.55 RCW. This is sometimes referred to as "banked" levy capacity. The City does not have any banked levy capacity.

With a majority vote of its electors, a taxing district may levy, within the rate limitations described above, more than what otherwise would be allowed by the tax increase limitation indefinitely or for a limited period or to satisfy a limited purpose, as allowed by RCW 84.55.050. This is known as a "levy lid lift."

Since the regular property tax increase limitation applies to the total dollar amount levied rather than to levy rates, increases in the assessed value of all property in the taxing district (excluding new construction, improvements and State-assessed property) which exceed the rate of growth in taxes allowed by the limit factor result in decreased regular tax levy rates, unless voters authorize a higher levy or the taxing district uses banked levy capacity. Decreases in the assessed value of all property in the taxing district (including new construction, improvements and State-assessed property) or increases in such assessed value that are less than the rate of growth in taxes imposed, among other events, may result in increased regular tax levy rates.

Special excess levies approved by a 60 percent majority of the voters and meeting minimum voter turnout requirements are not subject to the rate or amount limitations on regular levies described above.

TAX COLLECTION PROCEDURE

Property taxes are levied in specific amounts, and the rate for all taxes levied for all taxing districts in the County (including the City) are determined, calculated and fixed by the Assessor based upon the assessed valuation of the property within the various taxing districts. The Assessor extends the taxes to be levied within each taxing district upon a tax roll which contains the total amount of taxes to be so levied and collected and assigns a tax account number to each tax lot. The tax roll is delivered to the King County Finance Division by January 15 of each year, and an abstract of the tax roll, showing the total amount of taxes collectible in each of the taxing districts for the year, is delivered to the County Executive (an elected official) at the same time. All taxes are due and payable on April 30 of each year, but if the amount due from a taxpayer exceeds thirty dollars, one half may be paid then and the balance no later than October 31 of that year.

The method of giving notice of payment of taxes due, accounting for the money collected, the division of the taxes among the various taxing districts, giving notice of delinquency, and collection procedure are all covered by detailed statutes. The lien for ad valorem property taxes which have been levied prior to the filing of federal tax liens is prior to such federal tax liens.

In other respects, and subject to the possible "Homestead Exemption," the lien for delinquent property taxes is prior to all other liens or encumbrances of any kind on real or personal property subject to taxation. By law the taxing district may commence foreclosure of a tax lien on real property after three years have passed since the first delinquency. Washington State's courts have not decided whether the Homestead Law (Chapter 6.12 RCW) may give the occupying home owner a right in the forced sale of the family residence for delinquent general property taxes to retain the first \$40,000 of proceeds of the sale. (See *Algona vs. Sharp*, 30 Wn. App. 837, 638 P.2d 627 (1982), holding the homestead right superior to liens for local improvement district assessments.)

ASSESSED VALUATION DETERMINATION

The County Assessor (the "Assessor") determines the value of all real and personal property throughout the County (including the City) which is subject to *ad valorem* taxation. The Assessor's duties and methods of determining value are prescribed and controlled by statute and by detailed regulations promulgated by the State Department of Revenue. For tax purposes the assessed value of property is currently set at 100% of its actual value.

By State statute, all property is subject to revaluation at least every four years. King County revalues property every year based on market sales and conducts an on site appraisal of property every six years. The property is listed by the Assessor on a tax roll at its current assessed value and the tax roll is filed in the Assessor's office.

The Assessor's determinations are subject to revision by the County Board of Equalization and, for certain property, subject to further revision by the State Board of Equalization. After all administrative procedures are completed, the taxing unit receives the Assessor's final certificate of assessed value of property within the taxing district.

MAJOR TAXPAYERS WITHIN THE CITY¹

Taxpayer	Total Value
BRE Properties	\$37,700,000
COSTCO	20,086,087
Sears Merchandise Group	18,973,591
Home Depot USA	13,143,532
Safeway	11,029,731
Metropolitan Life	10,355,200
Puget Sound Energy-Gas/Electric	10,294,921
Panos Properties	9,725,400
National Tax Search	9,190,000
Brad Hill (formerly Echo Investments)	8,560,000
Verizon Northwest Inc.	7,393,097
Qwest Corporation	5,445,301

REPRESENTATIVE CITY AD VALOREM PROPERTY TAX RATES²

(\$1 per \$1,000 of assessed valuation)

Levy Year	General Fund	Bonds	County EMS	Library	King County	State School	School District No. 412	Port	Fire Dist 4	Total
2006	\$1.17674	\$0.00000	\$0.21982	\$0.53424	\$1.32869	\$2.49787	\$4.11749	\$0.23330	\$1.67026	\$11.77841
2005	1.24456	0.00000	0.23182	0.53255	1.38229	2.68951	3.99890	0.25321	1.59605	11.92889
2004	1.27939	0.00000	0.23717	0.53653	1.43146	2.75678	4.38331	0.25402	1.63968	12.51834
2003	1.35428	0.00000	0.24143	0.54568	1.34948	2.89680	4.60237	0.25895	1.73377	12.98276
2002	1.42864	0.00000	0.25000	0.52581	1.44949	2.98946	4.87060	0.18956	1.57742	13.28098
2001	1.52250	0.00000	0.24624	0.55737	1.55218	3.14502	5.20399	0.19029	1.67707	14.09466

¹ Source: King County Assessor.

² Source: King County Assessor.

CITY OF SHORELINE TAX COLLECTION HISTORY¹
As of 8/31/06

Levy Year	Assessed Valuation	General Fund Levy	Collection Year of Levy	% Collected	Collection To Date	% Collected
2006 ²	\$6,036,457,123	\$7,021,747	\$3,598,746	51.3%	\$3,598,746	51.3%
2005	5,579,304,408	6,888,506	6,739,713	97.8%	6,857,692	99.6%
2004	5,336,019,568	6,770,037	6,591,430	97.4%	6,756,199	99.8%
2003	4,944,692,284	6,635,235	6,463,806	97.4%	6,632,184	100.0%
2002	4,594,680,973	6,496,097	6,367,906	98.0%	6,495,556	100.0%
2001	4,245,872,390	6,384,150	6,238,943	97.7%	6,384,010	100.0%

Note: Taxes are due and payable on April 30, of each year succeeding the levy. At least one half of the tax amount due must be paid on or before April 30, or else the total amount becomes delinquent on May 1. The second half of the tax due is payable on or before October 31, becoming delinquent November 1.

AUTHORIZED INVESTMENTS

Chapter 39.59 RCW limits the investment of public funds to the following authorized investments: bonds of the State and any local government in the State, which bonds are rated at the time of investment in one of the three highest credit ratings by a nationally recognized rating agency; general obligation bonds of other states and subdivisions thereof so long as those bonds are rated in one of the three highest categories; registered warrants of a local government within the same county as the entity making the investment; and any investment authorized by law for the treasurer of the State or any local government exclusive of certificates of deposit of banks or bank branches not located in the State. Under chapter 43.84 RCW, the State Treasurer may invest in non negotiable certificates of deposit in designated qualified public depositories; in obligations of the U.S. government, its agencies and wholly owned corporations; in bankers' acceptances; in commercial paper; in repurchase agreements; in the obligations of the federal home loan bank, Federal National Mortgage Association and other government corporations subject to statutory provisions. Utility revenue bonds and warrants of any city and bonds or warrants of a local improvement district are also eligible investments (RCW 35.39.030).

Local Government Investment Pool

The State Treasurer's Office administers the Washington State Local Government Investment Pool (the "LGIP"), a \$4.15 billion fund that invests money on behalf of 424 cities, counties and special taxing districts (as of January 1, 2005). In its management of LGIP, the State Treasury adheres, at all times, to the principles appropriate for the prudent investment of public funds. These are, in priority order, (i) the safety of principal; (ii) the assurance of sufficient liquidity to meet cash flow demands; and (iii) to attain the highest possible yield within the constraints of the first two goals. Historically, the LGIP has had sufficient liquidity to meet all cash flow demands. The City regularly invests funds in the LGIP.

The LGIP, authorized by chapter 43.250 RCW, is a voluntary pool that provides its participants the opportunity to benefit from the economies of scale inherent in pooling. It is also intended to offer participants increased safety of principal and the ability to achieve a higher investment yield than would otherwise be available to them. The LGIP is a managed, highly liquid money market fund. The pool is restricted to investments with maturities of one year or less, and the average investment life typically is less than 90 days. Permissible investments include U.S. government and agency securities, bankers' acceptances, high quality commercial paper, repurchase and reverse repurchase agreements, and certificates of deposit issued by qualified Washington State depositories.

Authorized Investments for Bond Proceeds

In addition to the eligible investments discussed above, bond proceeds only may also be invested in mutual funds with portfolios consisting of U.S. government and guaranteed agency securities with average maturities of less

¹ Source: King County Department of Assessments and Treasury Division.

² In process of collection.

than four years; municipal securities rated in one of the four highest categories; and money market funds consisting of the same, so long as municipal securities held in the fund(s) are in one of the two highest rating categories. Bond proceeds may also be invested in shares of money market funds with portfolios of securities otherwise authorized by law for investment by local governments (RCW 39.59.030).

See “THE CITY – Investment Practices” herein for a discussion of the City’s investment portfolio.

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COMPARATIVE STATEMENT OF GENERAL FUND REVENUES AND EXPENDITURES¹
(Fiscal Year Ending December 31)

	2005	2004	2003	2002	2001
REVENUES					
Taxes	\$19,983,039	\$19,415,271	\$18,481,623	\$17,886,065 ⁽³⁾	\$17,187,404
Licenses & Permits	2,570,032 ⁽¹⁾	2,587,963	2,454,238	2,570,840 ⁽³⁾	1,682,291
Intergovernmental	2,217,010 ⁽²⁾	1,161,657	1,266,909	2,396,204	2,384,208
Charges for Services	1,444,609 ⁽¹⁾	777,523	714,990	640,775	334,577
Fines & Forfeits	46,891	127,850	176,890	182,352	201,729
Investment Interest	302,601	230,727	104,780	228,129	573,900
Miscellaneous	80,963	84,469	146,770	103,194	107,493
TOTAL REVENUES	26,645,145	24,385,461	23,346,200	24,007,560	22,471,602
EXPENDITURES					
General Government	6,280,149	6,336,750	6,366,977	6,269,453	5,624,732
Security of Persons & Property	8,960,393	8,368,883	7,638,956	7,740,447	7,479,732
Physical Environment	764,068	749,746	736,153	728,487	719,587
Economic Environment	2,812,106 ⁽¹⁾	1,540,536	1,657,331	1,609,866	1,620,068
Culture & Recreational	3,393,447	2,829,721	2,724,576	2,520,996	2,296,783
Capital Outlay	—	82,522	134,502	314,161	285,993
TOTAL EXPENDITURES	22,210,162	19,908,157	19,258,496	19,183,410	18,026,894
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	4,434,983	4,477,304	4,087,704	4,824,150	4,444,708
OTHER FINANCING SOURCES (USES)					
Operating Transfers In	1,160,590	2,242,495	2,160,896	2,448,105	2,417,356
Operating Transfers Out	(7,255,817)	(4,212,374)	(6,860,172)	(4,920,132)	(5,451,252)
TOTAL OTHER FINANCING SOURCES (USES):	(6,095,227)	(1,969,879)	(4,699,276)	(2,472,027)	(3,033,896)
NET CHANGE IN FUND BALANCES	(1,660,243)⁽⁴⁾	2,507,425	(611,572)⁽⁴⁾	2,352,123	1,410,812
FUND BALANCES – BEGINNING	11,345,253⁽¹⁾	8,428,580	9,040,152	6,688,029	5,293,102
Prior Period Adjustment	—	—	—	—	(15,886)
FUND BALANCES – ENDING	\$9,685,010	\$10,936,006	\$8,428,580	\$9,040,152	\$6,688,029

- (1) The Development Services Fund was accounted for as a Special Revenue Fund until 2005. In 2005 this fund was eliminated and the development services activity was accounted for in the General Fund. The activities in this fund included building permits, zoning, and inspection services. The 2004 ending fund balance in the Development Services Fund was \$409,247 and when added to the \$10,936,006 General Fund 2004 ending fund balance created a 2005 General Fund beginning fund balance of \$11,345,523.
- (2) The electric contract payment from Seattle City Light had been accounted for in the taxes revenue category prior to 2005. In 2005 this payment, which totaled \$1,032,348, was accounted for in intergovernmental revenue.
- (3) In 2000 the City started to collect utility tax, franchise fees, or contract utility payments from the various utility providers to City residents. These collections increased as more utility providers correctly remitted payment to the City during 2001 and 2002.
- (4) The City's financial policies allow the use of fund balance above the minimum requirements to be used for one-time expenditures or allocations. In 2003 the City Council authorized the transfer of \$3,045,00 to the General Capital Fund to set monies aside for the future Civic Center project. In 2005 the City Council authorized the use of fund balance for the following one-time expenditures: \$4,000,000 to be transferred to the General Capital Fund for the Civic Center project and \$124,000 for major capital repair.

¹ All years have been audited by the Washington State Auditor.

2006 GENERAL FUND BUDGET COMPARISON OF THE CITY
(Fiscal Year Ending December 31)

	<u>2006 Adopted</u>	<u>2005 Final</u>
REVENUES		
Taxes	\$ 19,675,102	\$ 18,806,704
Licenses & Permits	3,383,665	2,911,555
Intergovernmental	1,086,380	1,269,602
Charges for Services	1,446,452	1,198,000
Fines & Forfeits	11,000	111,000
Investment Interest	320,000	167,500
Miscellaneous	131,196	107,273
TOTAL REVENUES	<u>26,053,795</u>	<u>24,571,634</u>
EXPENDITURES		
General Government	7,614,511	7,191,194
Security of Persons & Property	9,330,063	8,960,048
Physical Environment	888,507	915,174
Economic Environment	3,335,924	3,100,062
Culture & Recreational	3,985,125	3,552,834
TOTAL EXPENDITURES	<u>25,154,130</u>	<u>23,719,312</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	899,665	852,322
OTHER FINANCING SOURCES (USES)		
Operating Transfers In	1,203,841	1,160,590
Operating Transfers Out	(4,244,036) ⁽¹⁾	(7,283,239) ⁽²⁾
TOTAL OTHER FINANCING SOURCES (USES):	<u>(3,040,195)</u>	<u>(6,122,649)</u>
NET CHANGE IN FUND BALANCES	<u>(2,140,530)⁽³⁾</u>	<u>(5,270,327)⁽³⁾</u>
FUND BALANCES – BEGINNING	9,685,010	11,345,253
FUND BALANCES – ENDING	<u>\$ 7,544,480</u>	<u>\$ 6,074,926</u>

- (1) The 2006 budget includes the one-time transfer of \$1,488,000 of the General Fund fund balance for the Civic Center Project, traffic calming devices, and traffic signal rehabilitation.
- (2) In 2005 the City Council authorized the use of fund balance for the following one-time expenditures: \$4,000,000 to be transferred to the General Capital Fund for the Civic Center project and \$124,000 for major capital repair.
- (3) The General Fund budget includes \$505,000 of fund balance allocated for contingencies annually as per the City's financial policies. The City has not had to spend against this contingency in any year as budget authority has been sufficient for all expenditures. The 2006 budget includes \$147,000 of one-time expenditures using fund balance to complete a Human Services Master Plan and updating the City's Emergency Management plan. The 2006 beginning fund balance exceeded policy requirements and was larger than originally projected. The 2005 budget includes in addition to the \$505,000 budgeted contingency \$612,000 of 2004 reappropriations.

SCHEDULE OF GENERAL OBLIGATION BOND DEBT SERVICE
(This Issue)

<u>Principal</u>	<u>Interest</u>	<u>Total UTGO</u>
\$ 915,000	\$	\$
950,000		
1,000,000		
1,045,000		
1,100,000		
1,150,000		
1,200,000		
1,250,000		
1,300,000		
1,345,000		
1,395,000		
1,450,000		
1,505,000		
1,565,000		
1,625,000		
<u>\$ 18,795,000</u>	<u>\$</u>	<u>\$</u>

CITY PROFILE

The City was incorporated in 1995 and operates as a Non-Charter Optional Code City with a Council-Manager form of government. The Council is comprised of seven members, elected at large by the citizens of Shoreline, each serving a four-year term. They are part-time elected officials who exercise the legislative powers of the City and determine matters of policy. The Council elects the Mayor and Deputy Mayor from the Council at large. The Mayor and Deputy Mayor serve in this capacity for a two year period. The City Council appoints the City Manager, who services as the City's chief executive officer. The City Manager appoints the Department Directors and the Directors work at the direction of the City Manager.

The City provides a full range of municipal services include police protection, parks and recreation facilities/activities, streets, planning, zoning and general administrative services. The City operates a stormwater utility systems. Currently, there are approximately 132 full-time employees of the City and 11 part-time regular employees, excluding seasonal and temporary workers.

Police Protection

To serve its community, the City of Shoreline has contracted with the King County Sheriff's Office (KCSO) since 1995 for its full-service police department. Officers work exclusively for Shoreline, wear city uniforms, and drive city-marked patrol cars. The chief of police for Shoreline oversees a staff of 46 commissioned officers, two administrative support staff, and a community service officer (who is non-commissioned). Shoreline also contracts for services from the KCSO's Criminal Investigations Division and Special Operations Section; these personnel do not work out of the precinct, but work closely with precinct staff. The police department operates a police station and two neighborhood centers.

Fire Protection

Fire protection and emergency medical services is provided by King County Fire District No. 4 which was originally formed in 1939 and later became Shoreline Fire Department. Shoreline Fire Department serves a population of 52,730 and covers an area of approximately 13-square miles. Shoreline Fire Department employs approximately 100 employees. The department provides 24-hour coverage for fire suppression, technical rescue, emergency medical and advanced life support, fire prevention and education, fire investigations, inspections, and code compliance to the population of the district. The Shoreline Fire Department as the first fire district in the State of Washington to obtain a rating of 3 from Insurances Services Organization and continues to maintain this rating.

Key Personnel

Robert Ransom, Mayor: Mr. Ransom is the City's mayor, whose first term began January 1, 1995. A member of the original City Council, Bob Ransom served as Shoreline's first Deputy Mayor. In 2006 he was elected by the City Council to serve as Mayor. He has lived in the area for over 32 years. He received a Bachelor of Science degree in psychology and a master of science degree in educational psychology from Portland State University, and a master's of public administration from the University of Puget Sound. He is a licensed industrial/organizational psychologist and a licensed mental health/rehabilitation counselor. For the past 20 years he has offered human resources consulting and counseling/psychological services through Ransom Enterprises. He has served on the boards of several nonprofit organizations. Mayor Ransom served as an elected Director for the Shoreline School Board and also an elected Commissioner for the Shoreline Park District.

Robert Olander, City Manager: Mr. Olander has been with the City for 4 years. He served as the Deputy City Manager when hired in 2002, and was appointed as City Manager in March 2006. Mr. Olander has served in the City Manager profession for over 26 years and has been City Manager for three other Washington cities. He received his Master's of Public Administration degree from the University Washington in 1973 and his Bachelor of Arts degree in Political Science from the University of California, Santa Barbara in 1969. He is currently an active member of the International City Management Association. He has served as the President and on the Board of several professional organizations including the Washington City Management Association, Washington Cities Insurance Authority, and the Association of Washington Cities.

Debbie Tarry, Finance Director: Ms. Tarry has been the City's Finance Director for 6 years. Ms. Tarry has previously served as the Finance Director for the City of Mill Creek, Washington and the Administrative Services Director for LINK Transit for Chelan and Douglas Counties, Washington. Ms. Tarry received her Bachelor of Arts in Business Administration with a concentration in Accounting from Pacific Lutheran University. Ms. Tarry is a Certified Public Accountant and is actively involved in several professional organizations. She has served as President and on the Board of the Washington State Finance Officers Association.

Richard (Dick) Deal, Director of Parks, Recreation and Cultural Services: Mr. Deal has been the City's Parks, Recreation and Cultural Services Director for 3 years. Prior to coming to the City of Shoreline, Mr. Deal worked for the City of Auburn, Washington for 30 years serving as the Parks and Recreation Director for the last six years. Mr. Deal received his Bachelor of Arts in Recreation and Parks Administration from Eastern Washington University. Mr. Deal is actively involved in the Washington State Parks and Recreation Association.

Labor Relations

The City does not have any bargaining units. The City's provisions for such matters as vacations, sick leave, medical and dental insurance, salaries, working conditions, and grievance procedures are contained within the personnel policies adopted by the City Council. The City's management considers its relations with employees to be excellent. In 2003 the City initiated its first employee organizational climate survey. The goal of the survey is for employees to provide feedback to management on their level of satisfaction regarding communication, teamwork, strategic planning and direction, and compensation. The City used the survey results and information learned from consulting State of Washington companies named by Fortune Magazine as among the 100 Best Places to Work in the United States to add improvements to the workplace. Management has committed to doing this survey on a regular biennial basis to monitor trends and identify areas that should be addressed to maintain good employee relations. The City completed the second survey in 2005.

Accounting and Budgeting Policies

The accounts of the City are organized by fund and account group, each of which is considered a separate accounting entity. Resources are allocated to and accounted for in individual funds accounting to the purposes for which they are spent and the means by which spending activities are controlled.

The City prepares budgets at the fund level in accordance with chapter 35A.33 RCW. The budget as adopted constitutes the legal authority for expenditures. Transfers within budgeted funds are allowed, but revisions which alter the total expenditures of a fund must be approved by ordinance of the City Council. Budgetary controls are maintained with interim reports to department managers and the City Manager. Formal quarterly financial reports

are provided to the City Council during regular City Council meetings. Appropriations for general and special revenue funds lapse at year end.

Auditing of City Finances

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 and 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 Auditor for review. The financial system of the City incorporates a system of financial and 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 principles ("GAAP") 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. 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 ended December 31, 2005 and the report thereon contained an unqualified opinion regarding the City's 2005 financial statements. Copies of the State Auditor's Report may be obtained by contacting the Office of State Auditor in Olympia, Washington, the City or on-line at www.sao.wa.gov.

Investment Practices

The City's Finance Director is delegated the responsibility for managing the City's investment program. The City maintains a cash and investment pool available for use by all funds. Investments are also held separately by several funds, with interest earned directly for the benefit of each fund. It is the policy of the City of Shoreline to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting its daily cash flow demands. All investments shall conform to all Washington statutes governing the investment of public funds. A buy and hold strategy will generally be followed; that is, investments once made will usually be held until maturity. In order to reduce overall portfolio risk while attaining benchmark average rate of return, the City will diversify its investments by security type, issuing institution, and terms of maturity. The diversification concept in a cash management fund thus includes prohibition against over concentration in a specific maturity sector as well as restricting the reliance on specific risk instruments and issuers. The City of Shoreline investment portfolio will be designed to obtain a market average rate of return in budgetary and economic cycles, taking into account the City's investment risk constraints, investment objectives and cash flow needs. Investment reports are incorporated within routinely scheduled quarterly financial reports submitted to management and Council that provide a clear picture of the status of the current investment portfolio. The City's investment policies have been certified by the Municipal Treasurer's Association of the United States and Canada.

Risk Management

The City of Shoreline is a member of the Washington Cities Insurance Authority (WCIA). Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and/or jointly contracting for risk management services. To date WCIA has a total of 115 members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$3 million per occurrence self insured layer, and \$11 million per occurrence in the re-insured excess layer with no annual aggregate except \$10 million per member for public officials errors and omissions. The excess layer is insured by

the purchase of reinsurance and insurance. Total limits are \$14 million per occurrence. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to \$500,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of reinsurance.

In-house services include risk management consultation, loss control field services, claims and litigation administration, and loss analyses. WCIA contracts for the claims investigation consultants for personnel issues and land use problems, insurance brokerage, and lobbyist services.

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, and administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines. These revenues directly offset portions of the membership's annual assessment.

Pension System

All permanent City employees, including part time employees who work 70 hours per month during five consecutive months, must participate in one of the following statewide local government retirement systems administered by the State Department of Retirement Systems, under cost-sharing multiple-employer public employee retirement systems.

Public Employees' Retirement System ("PERS"). Substantially all of the City's full-time and qualifying part-time employees, other than those covered under union plans, participate in PERS. This is a statewide local government retirement system administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer defined benefit public employee retirement plans. The PERS system includes three plans.

Participants who joined the system by September 30, 1977, are PERS Plan I members. Those joining thereafter are enrolled in PERS Plan II. In March 2000, Governor Gary Locke signed into law a new retirement plan for members of the PERS Plan II. The new plan, entitled PERS Plan III, provides members with a defined benefit plan similar to PERS Plan II and the opportunity to invest their retirement contributions in a defined contribution plan.

PERS Plan I members are eligible for retirement at any age after 30 years of service, at age 60 with five years of service, or at age 55 with 25 years of service. The annual pension is two percent of the average final compensation per year of service, capped at 60 percent. The average final compensation is based on the greatest compensation earned during any 24 eligible consecutive compensation months.

PERS Plan II members may retire at age 65 with five years of service or at 55 with 20 years of service. The annual pension is two percent of the average final compensation per year of service. PERS Plan II retirements prior to 65 are actuarially reduced. On July 1 of each year following the first full year of retirement service, the benefit will be adjusted by the percentage change in the Consumer Price Index ("CPI") of Seattle, capped at three percent annually.

PERS Plan III is structured as a dual benefit program that will provide members with the following benefits:

A defined benefit allowance similar to PERS Plan II calculated as one percent of the average final compensation per year of service (versus a two percent formula) and funded entirely by employer contributions.

A defined contribution account consisting of member contributions plus the full investment return on those contributions.

The required contribution rates expressed as a percentage of current-year covered payroll, as of July 1, 2006 were as follows:

	<u>PERS PLAN I</u>	<u>PERS PLAN 2</u>	<u>PERS PLAN 3</u>
Employer*	3.69%	3.69%	3.69%**
Employee	6.00%	3.50%	***

* The employer rates include the employer administrative expense fee currently set at 0.19%.

** Plan 3 defined benefit portion only.

*** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Both the City of Shoreline and the employees made the required contributions. The City of Shoreline's required contributions for the years ended December 31 were as follows:

	<u>PERS Plan I</u>	<u>PERS Plan II</u>	<u>PERS Plan III</u>
2003	\$ 26,281	\$ 125,112	\$44,603
2004	\$ 33,676	\$ 148,114	\$71,484
2005	\$ 40,157	\$ 221,301	\$64,819

Certain of the State Retirement System plans in which the City and its employees participate have unfunded actuarial obligations. The amounts of those obligations attributable to the City are not broken out by the State Retirement System. As provided by the State of Washington, Office of the State Actuary, the 2004 funded and unfunded liabilities based on actual values for the plans are as follows: PERS I (\$2,254 million) and PERS II & III (\$2,927 million). The PERS I assets are not available to cover PERS II & III liabilities.

The 2005 Washington State Legislature passed House Bill 1044 ("HB 1044"), a compromise on pension funding. HB 1044 provides for the rate increases to be phased in over a four-year period. The following is a brief summary of the bill's major provisions which: (1) begin a four-year phase-in of annual pension contribution rates, with a 2.25 percent PERS employer contribution rate effective July 1, 2005, increasing to 3.5 percent effective July 1, 2006; (2) direct the Pension Funding Council to adopt annual contribution rates by September 30, 2006 for the 2007-2009 biennium that would complete the four-year phase-in schedule; (3) continue to suspend contribution rates for the unfunded liabilities in PERS Plan I during the 2005-2007 biennium; (4) delay recognition of the cost associated with future gain-sharing benefit distributions until the 2007-2009 biennium; and (5) direct a Select Committee on Pension Policy to study the options available to address the liability associated with future gain-sharing distributions during the 2005 interim, and report the findings and recommendations of the study to the fiscal committees of the Legislature.

In March 2006, Legislature adopted Senate Bill 6896 ("SB 6896") to ensure that appropriate unfunded liability payments would be made. SB 6896 establishes new supplemental employer contribution rates, and transfers \$350 million into a new state Pension Funding Stabilization Account. In addition House Bill 2681 (HB 2681) was passed by the 2006 Legislature that provided a minimum PERS employer contribution rate of 2.68%, beginning July 1, 2009. This minimum rate is solely for the purpose of amortizing the unfunded liability in PERS Plan I.

Shown below are the current and future contribution rates for the PERS as provided for by HB 1044, SB 6896 and HB 2681, to include the components that comprise such rate. These rates include a rate to pre-fund the PERS I and PERS 3 gain-sharing benefit. Depending upon how the Legislature decides to address gain-sharing, rates could increase further. Contribution rates could also change pursuant to options that could be approved by the Legislature.

	PERS Employer Contribution Rates ⁽¹⁾				
	Effective 7-1-06	Effective 1-1-07	Effective 7-1-07	Effective 7-1-08	Effective 7-1-09
Normal Rate	3.50%	3.50%	4.15%	4.83%	4.83%
PERS 1 Unfunded Liability	0.01	1.78	1.69	2.57	2.57
Gain-Sharing	0.00	0.00	0.62	0.62	0.62
DRS Administrative Expense Rate	0.18	0.18	0.18	0.18	0.18
Total PERS Employer Rate	3.69%	5.46%	6.64%	8.20%	8.20%

(1) Source: State of Washington, Office of the State Actuary as of October 4, 2006

Historical trend information is presented in Washington State's Department of Retirement Systems' annual financial report. A copy of this report may be obtained at:

Department of Retirement Systems
Point Plaza West
1025 East Union Street
P.O. Box 48380
Olympia, WA 98504-8380

Internet Address: www.drs.wa.gov*

*The website of the Department of Retirement Systems is not part of this Official Statement and investors should not rely on information which is presented in its website in determining whether to purchase Bonds. This inactive textual reference to the website is not a hyperlink and does not incorporate the website by reference.

Local Governments Pension Trust Funds

The City has established a Money Purchase Retirement Plan and Trust administered by International City Managers Association (ICMA) under Internal Revenue Code Section 401(a). This is a defined contribution plan, which was established effective April 1996, in lieu of participation by the City in the social security system. Nationwide Retirement Solutions assets were converted to ICMA on December 16, 2004.

Under this plan employees contribute 6.2%. The City contributes 6.2% into the employee account. Participation in this plan is mandatory. Employee contributions for retirement benefits are always 100% vested. Employer contributions are 100% vested immediately.

Each employee may direct his/her investment among various investment options. Upon separation of service prior to retirement, all employee contributions may be withdrawn without regard to age.

The City also established a Money Purchase Retirement Plan and Trust in 1997 with the ICMA Retirement Corporation, as an alternative to the Washington State Public Employees Retirement System Plan II. The only employee eligible to participate in this plan is the City Manager.

As of December 31, 2005, the assets in the ICMA plans were valued at \$6,628,439 active and \$66,274 inactive.

Other Post Employment Benefits

The Government Accounting Standards Board ("GASB") has issued a new standard concerning Accounting and Financial Reporting by Employers for Post Employment Benefits Other than Pensions ("GASB 45"). In addition to pensions, many state and local governmental employers provide other post employment benefits ("OPEB") as a part of total compensation to attract and retain the services of qualified employees. OPEB includes post employment healthcare, as well as other forms of post employment benefits when provided separately from a pension plan. The new standard provides for the measurement, recognition and display of OPEB expenses/expenditures, related liabilities (assets), note disclosures, and if applicable, required supplementary information in the financial reports. This pronouncement is effective for the City for the fiscal year ending on December 31, 2008.

GENERAL AND ECONOMIC INFORMATION

The City of Shoreline is located in the northwestern corner of King County along the shores of Puget Sound. Shoreline is generally bounded by the City of Lake Forest Park to the east, the City of Seattle to the south, Puget Sound to the west, and Snohomish County to the north (including the Cities of Mountlake Terrace and Edmonds, and Town of Woodway). The City of Shoreline has 3.4 miles of Puget Sound shoreline that extends the length of the western edge of the City. The City of Shoreline was incorporated on August 31, 1995, and operates as a Council/Manager form of government.

Two of the region's three major, north-south highways run through Shoreline. The Aurora Corridor, or State Highway 99, is the primary non-freeway transportation corridor in the City of Shoreline. Interstate 5 (I-5), which also passes through and has three exits in Shoreline, is a federal highway that extends from Canada to Mexico. The City has multiple arterials that connect the areas of the City both east and west of Highway 99 and the Interstate.

Over the years, Shoreline has been a community distinguished by strong neighborhoods, excellent schools and numerous, quality parks. The City is now substantially developed with less than 1% of its total area (about 12 square miles) remaining vacant or available for use. Shoreline is primarily residential in character and over 74% of the households are single-family homes. The City is diverse in types of neighborhoods, housing, and incomes. Job growth and the search for family-style starter homes are pushing up single-family home values, despite softening in some Seattle neighborhood housing markets. This is also moving Shoreline toward increased densification of new development. Three western neighborhoods of the City are among the wealthiest in the region, one of which neighborhoods has about \$20 billion in household wealth shared by only 100 homes.

Historical population of the City of Shoreline and King County is shown as follows:

POPULATION¹

Year	Shoreline	King County
2006	52,830	1,835,300
2005	52,500	1,808,300
2004	52,740	1,788,300
2003	52,730	1,779,300
2002	53,250	1,774,300
2001	53,421	1,758,300
2000	53,296	1,737,034

Economically, Shoreline is the “north shore” bedroom community for Seattle, with borders that run from the Seattle city line to the County line. It is also the commercial hub of North King County, with a mix of retail, services, and government offices. Trade area population figures show considerable density, with 198,000 persons within only a 7 minute drive time around the city center.²

There are virtually no industrial businesses, except for hybrid retail-building materials businesses, such as a door store and a window store. There is a substantial number of institutional, public or tax exempt uses, including cemeteries, schools, a community college, non-profit agencies, public services and churches. Significant amounts of acreage are devoted to open space, including county and city parks, the Boeing Creek ravine, and the Seattle Golf Club.

Retail Services

Commercial development concentrates along Aurora Avenue (Highway 99). This consists of strip development and three larger nodes of activity – Aurora Square to the south, Aurora Village to the north, and the Civic Center area at 175th Street in the middle. All along Aurora Avenue, land prices have increased significantly in the past two years, rising from \$30 to \$35 psf, up to recent sales and asking prices of \$55 to \$85 psf or more. New

¹ Sources: U.S. Census for 2000 figures; Washington State Office of Financial Management for other years.

² Sources: U.S. Census for 2000 figures; Buxton Company research.

development includes the Watermark Credit Union, Walgreens, and the Gateway Center at 185th Street. Several businesses (such as Fred Meyer) have just completed substantial rehabilitation projects. The corridor also is home to six successful casinos/restaurants that predate the incorporation of the City.

Aurora Square is anchored by the Sears Department store occupying 330,000 square feet of space on three levels. Central Market is a high-end grocery store that is the other anchor. Other stores include Marshall's, the Paper Zone, Pier One Imports, Aaron Brothers Custom Frames, numerous restaurants, and three banks.

Aurora Village is a major shopping center located at the King County-Snohomish County border. As home to numerous big box retailers, it is anchored by Costco and Home Depot.

Smaller neighborhood commercial centers can be found throughout the City. Two of these are Richmond Highlands and Richmond Beach on the western side of the City, located along the main arterial running west to the public beach at Salt Water Park. Richmond Beach has shown increased activity in the past two years, with the addition of four successful restaurants.

Five of these neighborhood centers on the eastern side of I-5. The largest, called "North City," recently underwent a multi-million dollar capital project to upgrade all the utilities, streetscape, road infrastructure, and building regulations. As a result, there is currently one 88 unit apartment complex under construction. Between 170th and 185th Streets, are about 120 businesses, many of which are regional destination businesses in the home improvement category, as well as specialty businesses and two biotech start ups.

The 2007 City budget includes funding for a planning effort for the Ridgecrest neighborhood. One concept being considered is the movie-arts-theater theme and to improve its role as a walkable, neighborhood-oriented center complete with children's theater, community garden, and teen center.

Office Complexes

Recent and planned additions to the inventory of office space available in Shoreline include approximately 50,000 square feet of office space. Medical and dental service is a growing segment of office demand, both for the growth of existing businesses and location of new businesses. The Hand Surgery Clinic is one of the newer developments.

Public Facilities

The City has seen an influx of projects related to improvements to public facilities. Currently and in the near future, King County Wastewater Treatment Division will be rebuilding a pump station, replacing 10,000 ft. of sewers, constructing a 500,000 gallon underground sewer pipe: a \$3million project. In addition, \$1.6 billion regional wastewater treatment conveyance system will be constructed along the northern boundary of the City by 2010. Shoreline Community College has a 79 acre campus with 456,000 gross square feet of facilities and plans to add 225,600 gross square feet of facility space in the next 10 years. The King County Transfer Station located in Shoreline is currently undergoing a \$13 million rebuild and site remodel. One of only two State Health Labs is located in Shoreline and is in the process of completing a \$1,500,000 addition. Shoreline also has three new (constructed in the last 10 years) fire stations to serve the community.

The Washington State Department of Transportation has its District Headquarters in the City, in a 134,030 square foot building on a 16 acre site.

Located on an 80-acre site on 15th Avenue NE and NE 155th Street, the Fircrest Campus is Shoreline's largest public institution. It is owned by several State agencies that administer the site (in part as trust lands) for the State of Washington. Presently, Fircrest School, located on the campus, is home to approximately 300 developmentally disabled citizens and is run by the Department of Social and Health Services (DSHS).

The Civic Center area is located at the junction of 175th Street and Aurora Avenue. This is the location of City Hall and also where a new City Center complex will be built. Other existing public facilities include the Historical Museum and the Fire Department Training Center.

Residential Development

Residential development and redevelopment comprises a large portion of current construction in the City. The City has seen several multi-family and mixed use developments completed in the past five years including an

estimated: 90 town homes and 175 apartments. Current developments include the North City Apartments (88 market rate homes from studios to three bedrooms) and Echo Lake (8 acres of new development, featuring 460 units, a new YMCA, 10,000 to 15,000 square foot of retail space, and a one-acre waterfront park).

In addition, Shoreline has recently seen an influx of senior housing including the completion of Aegis Living Facilities in 2003 with 156 units valued at over \$12 million in construction costs. The CRISTA Ministries, with a campus of over 55 acres, has over 500 units of 24 hour care senior housing. Additionally, the King County Housing Authority has just begun nearly \$1 million in renovations to one of its facilities in the City.

Economic Development Strategic Plan

Shoreline has several key assets that can help attract new growth, major investment from both inside and outside the region, and redevelopment opportunities including: Central location in the Puget Sound region with easy access to downtown Seattle and business centers in Snohomish County; excellent public schools including Shoreline Community College; stable, single-family residential neighborhoods; frequent all-day transit service to commercial and employment centers; and public-owned properties that can play a strategic role in regional and local economic development.

The goal of Shoreline's economic development program is to improve the vibrancy and economic health of the City's commercial districts to provide quality services and jobs for residents. Improvements the City is making to infrastructure, land use planning, services and redevelopment affect the community's livability and, therefore, its economic vitality.

A broad-based task force of citizens and business leaders recently completed a new six-year economic development strategic plan. This plan emphasizes the value of a shared vision, shared commitments and regional partnerships.

Capital Projects and Transportation

The City is in the process of finishing the first of two phases of the largest capital and transportation project of its short municipal history. The Aurora Corridor Project is the City of Shoreline's plan to redesign and redevelop the three miles of Aurora Avenue North (State Route 99) that runs through Shoreline. This project also includes the construction of two (2) pedestrian bridges. The pedestrian bridges and first mile of construction will be completed by January 2007 at a cost of \$33.1 million, not including electrical system improvements provided by Seattle City Light. Planning and environmental work for the remaining two miles (Phase 2 of the Aurora Corridor Project) has begun. Construction for this segment is expected to begin July 2008 and be completed by mid-2010. The total estimated cost of this phase is estimated to be \$87 million. Approximately 87% of the funding for both phases of this project is being provided by State and Federal Grants. The City and utilities are providing the remaining portions of the funding. The project includes lanes for Bus Rapid Transit.

In concert with the Aurora project, the City has completed the construction of four (4) segments of the Interurban Bike and Pedestrian Trail, a non-motorized largely off street trail with connections to more than 250 miles of similar facilities north and south of the City's borders. The final segment of the trail is in the planning phase. The trail is built on Seattle City Light right-of-way and creates non-automobile circulation and linkages along the entire Aurora Avenue Commercial District.

The North City Project provided re-channelization and pedestrian safety improvements, such as sidewalks, landscaping, street lights, benches, new signal poles and underground utilities. Construction began in May 2005 and was completed in July 2006. The North City project construction costs were \$6,563,802.

Numerous other capital projects are underway or completed throughout the city area. These achieve the goals of improving drainage, safety, parks and recreation system improvements, and pedestrian access.

Education

K through 12 Programs

Shoreline School District offers a pre-K through twelfth grade program with a current enrollment of 9,700 students. The District two high schools, two middle schools and eleven elementary schools and the Shoreline

Children's Center (pre-K). The District also offers the Home School Exchange program and the alternative Room Nine and Journey programs.

There are six private schools in the City including a school for the hearing impaired, a non-sectarian school for grades k-8, a preschool and three sectarian schools.

Shoreline Community College

Shoreline Community College opened its doors to just over 350 students in 1964. The college is the eighth largest community college in the state of Washington and offers university transfer associate degrees in Arts and Sciences and in Science and professional/technical associate degrees in Applied Arts and Sciences. The college also offers certificates in many areas and GED.

Current enrollment is 13,795 of which 37% are academic transfer students, 45% professional/technical students and 18% are other programs. The college offers daytime as well as evening classes. Over 500 of the students are international students representing 30 countries.

Other Educational Institutions

There are seven other universities and colleges located within approximately 10 miles of the City including the University of Washington, Seattle University, Seattle Pacific University and the Art Institute of Seattle.

Medical

Three hospitals are located within 5 miles of the City. Northwest and Kindred hospitals are located in Seattle and Stevens Hospital is located in Edmonds.

Transportation

Air

Airports certified for carrier operations nearest to Shoreline include Snohomish County's Paine Field located in Everett, 12 miles from the City; King County's Boeing Field International airport located 17 miles south in Seattle and Seattle-Tacoma International airport 23 miles south. Seaplane service is provided by Kenmore Air Harbor about 7 miles east of the City on Lake Washington.

Train

Amtrak service is provided at stations located in Edmonds (5 miles north of the City), Everett (18 miles north of the City), and in Seattle (11 miles south of the City).

Bus

Bus service throughout much of King and Snohomish counties is provided to the City by King County Metro, Sound Transit and Community Transit. The three transit systems provide a linked transportation routes throughout the two counties and also link to Pierce County Transit which serves the City of Tacoma and Pierce County.

Utilities

Electric and natural gas service is provided by Puget Sound Energy. Water is provided by Seattle Public Utilities and the Shoreline Water District. The Seattle Public Utilities provides water to the western majority of the City and the balance is provided by the Shoreline Water District. Sewerage service is provided by the Ronald Wastewater District. Wastewater is conveyed to the King County Metro treatment facilities.

Recreation

From breath-taking views of Puget Sound to tennis, indoor swimming to nature trails and beach access to skateboarding, Shoreline's more than 356 acres of park land offer a variety of enriching recreation and outdoor experiences. The Shoreline Parks, Recreation and Cultural Services Department not only acts as stewards of the City's 25 parks through maintenance and planning, but provides recreation, aquatic and cultural experiences to the community through a wide range of programs.

The City operates the Shoreline Pool and the Spartan Recreation Center at Shoreline Center. The Spartan Recreation Center is possible through a joint facility use agreement with the Shoreline School District. The City offers a full scale of recreational and cultural classes, athletic leagues for both adults and youth, and partners with the Shoreline museum and arts council to provide additional cultural opportunities for the Shoreline community. The City provides opportunities for teens by operating the Richmond Highlands Recreation Center and The Annex.

Economic Indicators

Following are economic indicators for the City and King County.

CITY OF SHORELINE BUILDING PERMITS ISSUED (RESIDENTIAL AND COMMERCIAL)¹

Residential				
	<u>New Residential</u>		<u>Add/Remodel Residential</u>	
	Number	Valuation	Number	Valuation
2006 ⁽¹⁾	36	10,278,881	148	6,017,114
2005	64	18,632,605	190	9,106,623
2004	57	7,990,568	179	6,502,577
2003	77	13,952,978	204	6,670,855
2002	75	13,139,618	179	6,966,343
2001	71	14,872,024	161	6,682,787

(1) Through August 2006

Multi-Family				
	<u>New Multi-Family</u>		<u>Add/Remodel Multi-Family</u>	
	Number	Valuation	Number	Valuation
	18	7,274,459	3	112,294
	19	14,646,526	16	372,975
	7	8,343,302	2	98,600
	6	3,804,853	6	412,191
	16	6,679,036	9	765,004
	4	1,801,968	4	163,400

Commercial				
	<u>New Commercial</u>		<u>Add/Remodel Commercial</u>	
	Number	Valuation	Number	Valuation
	7	14,019,490	22	1,768,823
	12	19,499,583	63	11,662,368
	9	12,831,853	54	4,019,805
	8	5,747,717	56	7,517,594
	7	7,202,078	45	3,697,389
	4	369,600	40	5,473,349

¹ Source: City of Shoreline.

CITY OF SHORELINE HOUSING UNITS BY TYPE

	<u>Total</u>	<u>1 Unit</u>	<u>2+ Units</u>	<u>MH/Spec</u>
2006	21,656	15,975	5,527	154
2005	21,707	15,969	5,499	239
2004	21,641	15,941	5,454	246
2003	21,544	15,896	5,414	234
2002	21,441	15,848	5,397	196
2001	21,379	15,814	5,387	178
2000	21,338	15,776	5,373	189

Year 2000 are census data, either federal Census 2000 or special city census. For 2001 through 2006, the housing data are mostly estimated with some special city censuses.

Federal Census 2000 housing data are adjusted SF3 data. Adjusted by the Office of Financial Management

Federal census counts have been adjusted for annexations from January 1 to April 1 for 2000.

Source: Washington State OFM

TAXABLE RETAIL SALES¹

	<u>Shoreline</u>	<u>King County</u>
2006*	\$ 152,020,161	\$ 9,824,233,451
2005	683,984,582	39,951,928,499
2004	652,182,857	36,848,012,362
2003	612,033,356	34,987,570,932
2002	579,138,960	34,791,128,291
2001	581,862,580	35,772,850,318
2000	570,961,523	37,383,540,910

* 1st qtr 2006

SALES TAX DISTRIBUTIONS

	<u>Shoreline Sales Tax</u>	<u>King County Sales Tax</u>
2005	\$ 6,016,941	\$ 424,847,957
2004	5,744,116	392,469,075
2003	5,365,974	379,348,649
2002	5,123,952	377,328,498
2001	5,107,340	393,806,624
2000	4,943,661	400,733,769

Source: Washington State Department of Revenue

¹ Source: Washington state Department of Revenue.

**NONFARM WAGE AND SALARY WORKERS
EMPLOYED IN THE CITY OF SHORELINE AND KING COUNTY¹**

	<u>City of Shoreline</u>					
	2005	2004	2003	2002	2001	2000
Construction and Resources	742	758	571	580	602	514
Finance, Insurance and Real Estate	526	572	577	564	1,066	671
Manufacturing	251	237	239	127	133	144
Retail	3,031	3,068	2,735	2,964	2,861	2,684
Services	7,048	6,981	6,494	6,306	6,612	6,433
Wholesale Trade, Transportation, and Utilities	160	167	174	242	425	380
Government	2,462	2,413	2,340	2,310	2,239	2,292
Education	2,386	2,476	2,875	1,751	1,652	1,839
Total *	16,608	16,673	16,184	14,844	15,590	14,958

	<u>King County</u>					
Construction and Resources	59,186	57,052	54,758	57,290	64,535	64,249
Finance, Insurance and Real Estate	73,855	75,749	76,240	74,511	76,530	76,056
Manufacturing	104,025	101,457	105,817	119,344	132,336	139,551
Retail	109,197	108,274	108,767	110,217	119,062	117,014
Services	491,132	477,420	473,400	474,287	499,711	492,162
Wholesale Trade, Transportation, and Utilities	103,438	103,929	104,947	106,911	115,260	114,712
Government	69,364	68,827	68,129	67,394	62,974	64,311
Education	82,888	84,619	85,954	84,458	85,115	81,587
	1,093,085	1,077,327	1,078,012	1,094,412	1,155,523	1,149,642

Source: Puget Sound Regional Council

* Totals may not agree due to rounding.

PER CAPITA PERSONAL INCOME²

	2004	2003	2002	2001	2000
Seattle-Tacoma-Bellevue, WA (MSA)	\$ 41,634	\$ 38,447	\$ 38,229	\$ 37,808	\$ 37,746
King	49,286	44,482	44,313	43,841	44,437
Washington	35,041	32,882	32,549	32,291	31,779
United States	33,050	31,484	30,810	30,574	29,845

Source: Bureau of Economic Analysis

¹This series consists of employment for those firms, organizations and individuals whose employees are covered by the Washington Unemployment Insurance Act. Covered employment excludes self-employed workers, proprietors, CEOs, etc., and other non-insured workers. Typically, covered employment has represented 85-90% of total employment. The employment data represents the number of jobs during March of the given year. Note that this includes part-time and temporary employment, and if a worker holds more than one job, each job would appear in the database.

² Personal income is the income that is received by persons from all sources. It is calculated as the sum of wage and salary disbursements, supplements to wages and salaries, proprietors' income with inventory valuation and capital consumption adjustments, rental income of persons with capital consumption adjustment, personal dividend income, personal interest income, and personal current transfer receipts, less contributions for government social insurance.

This measure of income is calculated as the personal income of the residents of a given area divided by the resident population of the area. In computing per capita personal income, BEA uses the Census Bureau's annual midyear population estimates.

SHORELINE AREA MAJOR EMPLOYERS¹

Business Name	Description	Number of Employees
Shoreline School District No. 412	Schools K-12	1,516
Shoreline Community College	Community College	883
State of Washington – Fircrest School	Residential Facility for Developmentally Disabled	696
Crista Ministries, Inc.	Private School/Religious Activity/Retirement Home	659
Washington State Department of Transportation	State Transportation Services	629
King County – Metro Transit	Public Transit Services	532
Costco Wholesale	Retail & Wholesale	328
Northwest Security Guards	Private Security Guards	304
Club Hollywood Casino	Casino & Restaurant	237
Drift-on-Inn Roadhouse	Casino & Restaurant	235
City of Shoreline	Municipal Government	214
The Home Depot	Retail/Home Improvement	212
Ars Well Inc.	Retail	182
Haggens Incorporated	Grocery	171
Goldies Shoreline Casino	Casino & Restaurant	162
Shoreline Central Market	Grocery	160

INITIATIVE AND REFERENDUM

Under the State Constitution, the voters of the State have the ability to initiate legislation and modify existing legislation through the powers of initiative and referendum, respectively. The initiative power in Washington may not be used to amend the State Constitution. Initiatives and referenda are submitted to the voters upon receipt of a petition signed by at least 8% (initiatives) and 4% (referenda) of the number of voters registered and voting for the office of Governor at the preceding regular gubernatorial election. Any law approved in this manner by a majority of the voters may not be amended or repealed by the Legislature within a period of two years following enactment, except by a vote of two-thirds of all the members elected to each house of the Legislature. After two years, the law is subject to amendment or repeal by the Legislature in the same manner as other laws.

TAX EXEMPTION

Exclusion from Gross Income

In the opinion of Bond Counsel, under existing federal law and assuming compliance with applicable requirements of the Internal Revenue Code of 1986, as amended (the “Code”), that must be satisfied subsequent to the issue date of the Bonds, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals.

Continuing Requirements

The City is required to comply with certain requirements of the Code after the date of issuance of the Bonds in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Bond proceeds and the facilities financed or refinanced with Bond proceeds, limitations on investing gross proceeds of the Bonds in higher yielding investments in certain circumstances and the requirement to comply with arbitrage rebate requirements to the extent applicable to the Bonds. The City has covenanted in the Ordinance to comply with those requirements, but if the City fails to comply with those requirements, interest on the Bonds could become taxable retroactive to

¹ Source: City of Shoreline Geographical Services.

the date of issuance of the Bonds. Bond Counsel has not undertaken and does not undertake to monitor the City's compliance with such requirements.

Corporate Alternative Minimum Tax

While interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, under Section 55 of the Code, tax-exempt interest, including interest on the Bonds, received by corporations is taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations (as defined for federal income tax purposes). Under the Code, alternative minimum taxable income of a corporation will be increased by 75% of the excess of the corporation's adjusted current earnings (including any tax-exempt interest) over the corporation's alternative minimum taxable income determined without regard to such increase. A corporation's alternative minimum taxable income, so computed, that is in excess of an exemption of \$40,000, which exemption will be reduced (but not below zero) by 25% of the amount by which the corporation's alternative minimum taxable income exceeds \$150,000, is then subject to a 20% minimum tax.

A small business corporation is exempt from the corporate alternative minimum tax for any taxable year beginning after December 31, 1997, if its average annual gross receipts during the three-taxable-year period beginning after December 31, 1993, did not exceed \$5,000,000, and its average annual gross receipts during each successive three-taxable-year period thereafter ending before the relevant taxable year did not exceed \$7,500,000.

For taxable years beginning after December 31, 1997, the corporate alternative minimum tax is repealed for a small business corporation that had average gross receipts of less than \$5 million for the 3-year period beginning after December 31, 1994, and such a small business corporation will continue to be exempt from the corporate alternative minimum tax so long as its average gross receipts do not exceed \$7.5 million.

Tax on Certain Passive Investment Income of S Corporations

Under Section 1375 of the Code, certain excess net passive investment income, including interest on the Bonds, received by an S corporation (a corporation treated as a partnership for most federal tax purposes) that has Subchapter C earnings and profits at the close of the taxable year may be subject to federal income taxation at the highest rate applicable to corporations if more than 25% of the gross receipts of such S corporation is passive investment income.

Foreign Branch Profits Tax

Interest on the Bonds may be subject to the foreign branch profits tax imposed by Section 884 of the Code when the Bonds are owned by, and effectively connected with a trade or business of, a United States branch of a foreign corporation.

Possible Consequences of Tax Compliance Audit

The Internal Revenue Service (the "IRS") has established a general audit program to determine whether issuers of tax-exempt obligations, such as the Bonds, are in compliance with requirements of the Code that must be satisfied in order for the interest on those obligations to be, and continue to be, excluded from gross income for federal income tax purposes. Bond Counsel cannot predict whether the IRS will commence an audit of the Bonds. Depending on all the facts and circumstances and the type of audit involved, it is possible that commencement of an audit of the Bonds could adversely affect the market value and liquidity of the Bonds until the audit is concluded, regardless of its ultimate outcome.

CERTAIN OTHER FEDERAL TAX CONSEQUENCES

Bonds Are "Qualified Tax-Exempt Obligations" for Financial Institutions

Section 265 of the Code provides that 100% of any interest expense incurred by banks and other financial institutions for interest allocable to tax exempt obligations acquired after August 7, 1986, will be disallowed as a tax deduction. However, if the tax-exempt obligations are obligations other than private activity bonds, are issued by a governmental unit that, together with all entities subordinate to it, does not reasonably anticipate issuing more than \$10,000,000 of tax-exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) in the current calendar year, and are designated by the governmental

unit as “qualified tax exempt obligations,” only 20% of any interest expense deduction allocable to those obligations will be disallowed.

The City is a governmental unit that, together with all subordinate entities, reasonably anticipates issuing more than \$10,000,000 of tax-exempt obligations (other than private activity bonds and other obligations not required to be included in such calculation) during the current calendar year and has **not** designated the Bonds as “qualified tax-exempt obligations” for purposes of the 80% financial institution interest expense deduction. Therefore, no interest expense of a financial institution allocable to the Bonds is deductible for federal income tax purposes.

Reduction of Loss Reserve Deductions for Property & Casualty Insurance Companies

Under Section 832 of the Code, interest on the Bonds received by property and casualty insurance companies will reduce tax deductions for loss reserves otherwise available to such companies by an amount equal to 15% of tax-exempt interest received during the taxable year.

Effect on Certain Social Security and Retirement Benefits

Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take receipt or accruals of interest on the Bonds into account in determining gross income.

Other Possible Federal Tax Consequences

Receipt of interest on the Bonds may have other federal tax consequences as to which prospective purchasers of the Bonds may wish to consult their own tax advisors.

PRESERVATION OF TAX EXEMPTION

The City covenants, by the Ordinance, that it will take all actions necessary to prevent interest on the Bonds from being included in gross income for federal income tax purposes, and it will neither take any action nor make or permit any use of proceeds of the Bonds or other funds of the City treated as proceeds of the Bonds at any time during the term of the Bonds which will cause interest on the Bonds to be included in gross income for federal income tax purposes. The City certifies that it has not been notified of any listing or proposed listing by the Internal Revenue Service to the effect that it is a bond issuer whose arbitrage certifications may not be relied upon.

ABSENCE OF MATERIAL LITIGATION

There is no litigation of any kind now pending or, to the knowledge of the City, threatened to restrain or enjoin the issuance or delivery of the Bonds or in any manner questioning the proceedings and authority under which the Bonds are issued or affecting the ability of the City to pay the principal of or the interest on the Bonds.

CONTINUING DISCLOSURE

Basic Undertaking to Provide Annual Financial Information and Notice of Material Events

To meet the requirements of United States Securities and Exchange Commission (“SEC”) Rule 15c2-12(b)(5) (the “Rule”), as applicable to a participating underwriter for the Bonds, the City will undertake (the “Undertaking”) for the benefit of holders of the Bonds to provide or cause to be provided, either directly or through a designated agent, to each nationally recognized municipal securities information repository designated by the SEC in accordance with the Rule (“NRMSIR”) and to a State information depository, if any, established in the State (the “SID”) annual financial information and operating data of the type included in this Official Statement as generally described below (“annual financial information”) and to each NRMSIR or the Municipal Securities Rulemaking Board (“MSRB”) and to the SID, timely notice of the occurrence of any of the following events with respect to the Bonds, if material: (i) principal and interest payment delinquencies; (ii) non-payment related defaults; (iii) unscheduled draws on debt service reserves reflecting financial difficulties; (iv) unscheduled draws on credit enhancements reflecting financial difficulties; (v) substitution of credit or liquidity providers, or their failure to perform; (vi) adverse tax opinions or events affecting the tax-exempt status of the Bonds; (vii) modifications to rights of holders of the Bonds; (viii) Bond calls (other than scheduled mandatory redemption of Term Bonds); (ix) defeasances; (x) release, substitution, or sale of property securing repayment of the Bonds; and (xi) rating changes. The City will also provide to each NRMSIR or to the MSRB, and to the SID, timely notice of a failure by the City to provide required annual financial information on or before the date specified below.

Type of Annual Financial Information Undertaken to be Provided

The annual financial information that the City undertakes to provide will consist of: (1) the City's annual financial statements prepared (except as noted in the financial statements) in accordance with generally accepted accounting principles applicable to governmental units, as such principles may be changed from time to time, which statements shall not be audited, except, however, that if and when audited financial statements are otherwise prepared and available to the City they will be provided; (2) authorized, issued and outstanding balance of general obligation bonds; (3) assessed valuation of property within the City for the fiscal year; and (4) regular property tax levy rate and rate limit for the fiscal year. The annual financial information that the City undertakes to provide will be provided to each NRMSIR and the SID not later than the last day of the ninth month after the end of each fiscal year of the City (currently, a fiscal year ending December 31), as such fiscal year may be changed as permitted or required by State law, commencing with the City's fiscal year ending December 31, 2005.

The annual financial information may be provided in a single or multiple documents and may be incorporated by reference to other documents that have been filed with each NRMSIR and the SID; or, if the document incorporated by reference is a "final official statement" with respect to other obligations of the City, that has been filed with the MSRB.

Amendment of Undertaking

The Undertaking is subject to amendment after the primary offering of the Bonds without the consent of any holder of any Bond, or of any broker, dealer, municipal securities dealer, participating underwriter, rating agency, NRMSIR, the SID or the MSRB, under the circumstances and in the manner permitted by the Rule.

The City will give notice to each NRMSIR or the MSRB and the SID, of the substance (or provide a copy) of any amendment to the Undertaking and a brief statement of the reasons for the amendment. If the amendment changes the type of annual financial information to be provided, the notice also will include a narrative explanation of the effect of that change in the type of information to be provided.

Termination of Undertaking

The City's obligations under the Undertaking shall terminate upon the legal defeasance of all of the Bonds. In addition, the City's obligations under the Undertaking shall terminate if those provisions of the Rule which require the City to comply with the Undertaking become legally inapplicable in respect of the Bonds for any reason, as confirmed by an opinion of nationally recognized bond counsel or other counsel familiar with federal securities laws delivered to the City, and the City provides timely notice of such termination to each NRMSIR or the MSRB and the SID.

Remedy for Failure to Comply with Undertaking

If the City or any other obligated person fails to comply with the Undertaking, the City will proceed with due diligence to cause such noncompliance to be corrected as soon as practicable after the City learns of that failure. No failure by the City or other obligated person to comply with the Undertaking will constitute a default in respect of the Bonds. The sole remedy of any holder of a Bond will be to take such actions as that holder deems necessary, including seeking an order of specific performance from an appropriate court, to compel the City or other obligated person to comply with the Undertaking.

Prior Compliance

The City is in compliance with its previous undertakings to provide continuing disclosure under the Rule.

BOND RATING

The City has received a rating of "AA-" on the Bonds from Standard & Poor's Corporation ("S&P"). A municipal bond rating reflects a rating agency's current assessment of a number of factors relating to the issuer of any debt, including the likelihood of repayment of such debt, the perceived quality of management and administration of the entity, the nature and relative health of the local economy in which the issuer exists and the overall financial condition and operational controls which exist for the issuer. The existence of a bond rating does not imply a recommendation by a rating agency to purchase, sell or hold any such security, inasmuch as it does

not take into account a number of subjective variables, including the market price of any such security or suitability of such security for any particular investor.

A credit rating is based on current information furnished by the issuer or obtained by a rating agency from sources which it considers to be reliable. S&P does not perform an audit in connection with any credit rating it may assign and may, on occasion, rely on unaudited financial information. A bond rating may be changed, suspended or withdrawn as a result of changes in, or unavailability of, such information, or for other circumstances.

APPROVAL OF BOND COUNSEL

Legal matters incident to the authorization, issuance and sale of Bonds by the City are subject to the approving legal opinion of Foster Pepper PLLC, Seattle, Washington, Bond Counsel. The form of the opinion of Bond Counsel with respect to the Bonds is attached hereto as Appendix A.

The opinion of Bond Counsel is given based on factual representations made to Bond Counsel, and under existing law, as of the date of initial delivery of the Bonds, and Bond Counsel assumes no obligation to revise or supplement its opinion to reflect any facts or circumstances that may thereafter come to its attention, or any changes in law that may thereafter occur. The opinion of Bond Counsel is an expression of its professional judgment on the matters expressly addressed in its opinion and does not constitute a guarantee of result. Bond Counsel will be compensated only upon the issuance and sale of Bonds.

CONFLICTS OF INTEREST

Some or all of the fees of the Underwriter and Bond Counsel are contingent upon the issuance and sale of the Bonds. None of the councilmembers or other officers of the City have interests in the issuance of the Bonds that are prohibited by applicable law.

UNDERWRITING

The Underwriter has agreed, subject to certain conditions, to purchase all of the Bonds, at a price of _____% of the par value of the Bonds. The Bonds will be reoffered at a price of _____% plus accrued interest, resulting in an underwriting spread of \$_____ per \$1,000 of principal. After the initial public offering, the public offering prices may be varied from time to time.

CONCLUDING STATEMENT

All estimates, assumptions, statistical information and other statements contained herein, while taken from sources considered reliable, are not guaranteed by the City or the Underwriter. So far as any statement herein includes matters of opinion, or estimates of future expenses and income, whether or not expressly so stated, they are intended merely as such and not as representations of fact.

The information contained herein should not be construed as representing all conditions affecting the City or the Bonds. Additional information may be obtained directly from the City or the Underwriter.

The foregoing statements relating to the Ordinance and other documents are in all respects subject to and qualified in their entirety by provisions of such documents.

This Official Statement, starting with the cover page and all subsequent pages, including any appendices, comprise the entire Official Statement, which has been approved by the City. The City has represented to the Underwriter that the portions of this Official Statement directly pertaining to the City neither contain any misrepresentation of material fact nor omit any material fact necessary to understand the financial, economic or legal nature of the City or any information presented herein.

City of Shoreline, Washington

By: _____
City Manager

APPENDIX A
FORM OF LEGAL OPINION

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FOSTER PEPPER PLLC

[FORM OF APPROVING LEGAL OPINION]

City of Shoreline, Washington

Re: City of Shoreline, Washington,
\$18,795,000 Unlimited Tax General Obligation Bonds, 2006

We have served as bond counsel to the City of Shoreline, Washington (the "City"), in connection with the issuance of the above referenced bonds (the "Bonds"), and in that capacity have examined such law and such certified proceedings and other documents as we have deemed necessary to render this opinion. As to matters of fact material to this opinion, we have relied upon representations contained in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

The Bonds are issued by the City pursuant to Ordinance No. ____ (the "Bond Ordinance") for capital purposes only, which shall not include the replacement of equipment, pursuant to an election authorizing the Bonds and under and in accordance with the Constitution and laws of the State of Washington.

For as long as any of the Bonds are outstanding, the City irrevocably has pledged to levy taxes annually without limitation as to rate or amount on all of the taxable property within the City in an amount sufficient, together with other money legally available and to be used therefor, to pay when due the principal of and interest on the Bonds, and the full faith, credit and resources of the City have been pledged irrevocably for the annual levy and collection of those taxes and the prompt payment of that principal and interest.

We have not been engaged to review and thus express no opinion concerning the completeness or accuracy of any official statement, offering circular or other sales or disclosure material relating to the issuance of the Bonds or otherwise used in connection with the Bonds.

Under the Internal Revenue Code of 1986, as amended (the "Code"), the City is required to comply with certain requirements after the date of issuance of the Bonds in order to maintain the exclusion of the interest on the Bonds from gross income for federal income tax purposes, including, without limitation, requirements concerning the qualified use of Bond proceeds and the facilities financed or refinanced with Bond proceeds, limitations on investing gross proceeds of the Bonds in higher yielding investments in certain circumstances and the arbitrage rebate requirement to the extent applicable to the Bonds. The City has covenanted in the Bond Ordinance to comply with those requirements, but if the City fails to comply with those requirements, interest on the Bonds could become taxable retroactive to the date of issuance of the Bonds. We have not undertaken and do not undertake to monitor the City's compliance with such requirements.

Based upon the foregoing, as of the date of initial delivery of the Bonds to the purchaser thereof and full payment therefor, it is our opinion that under existing law:

1. The City is a duly organized and legally existing code city under the laws of the State of Washington;

2. The Bonds have been duly authorized and executed by the City and are issued in full compliance with the provisions of the Constitution and laws of the State of Washington and the ordinances of the City relating thereto;

3. The Bonds constitute valid and binding general obligations of the City payable from annual *ad valorem* taxes to be levied without limitation as to rate or amount on all of the taxable property within the City, except only to the extent that enforcement of payment may be limited by bankruptcy, insolvency or other laws affecting creditors' rights and by the application of equitable principles and the exercise of judicial discretion in appropriate cases; and

4. Assuming compliance by the City after the date of issuance of the Bonds with applicable requirements of the Code, the interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax applicable to individuals; however, while interest on the Bonds also is not an item of tax preference for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by corporations is to be taken into account in the computation of adjusted current earnings for purposes of the alternative minimum tax applicable to corporations, interest on the Bonds received by certain S corporations may be subject to tax, and interest on the Bonds received by foreign corporations with United States branches may be subject to a foreign branch profits tax. We express no opinion regarding any other federal tax consequences of receipt of interest on the Bonds.

This opinion is given as of the date hereof, and we assume no obligation to 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.

We bring to your attention the fact that the foregoing opinions are expressions of our professional judgment on the matters expressly addressed and do not constitute guarantees of result.

Respectfully submitted,

APPENDIX B

DTC & BOOK-ENTRY SYSTEM

The following information has been provided by DTC. The City makes no representation regarding the accuracy or completeness thereof. Beneficial Owners should therefore confirm the following with DTC or the Direct Participants (as hereinafter defined).

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities 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 issue of the Bonds, each in the aggregate principal amount of such issue, 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.

DTC holds and provides asset servicing for over two 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, LLC., 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, 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.

Purchases of Bonds under the DTC system 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 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 Direct 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.

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 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.

Neither DTC nor Cede & Co. (nor such 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 the 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 District or Bond 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 Bonds 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 Bond Registrar, or the District, 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 such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Bond Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as bond depository with respect to the Bonds at any time by giving reasonable notice to the City or the Bond Registrar. Under such circumstances, in the event that a successor bond depository is not obtained, Bond certificates are required to be printed and delivered. The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor bond depository). In that event, Bond certificates will be printed and delivered to DTC.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City and the Underwriter believe to be reliable, but neither the City nor the Underwriter takes responsibility for the accuracy thereof.

CITY OF SHORELINE, WASHINGTON

ORDINANCE NO. 454

AN ORDINANCE of the City of Shoreline, Washington, relating to contracting indebtedness; providing for the issuance, specifying the maturities, interest rates, terms and covenants of \$18,795,000 par value of Unlimited Tax General Obligation Bonds, 2006, authorized by the qualified voters of the City at a special election held therein pursuant to Ordinance No. 409; establishing a bond redemption fund and [a project] fund; and approving the sale and providing for the delivery of the bonds to _____ of _____, _____.

Passed November 29, 2006

This document prepared by:

*Foster Pepper PLLC
1111 Third Avenue, Suite 3400
Seattle, Washington 98101
(206) 447-4400*

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CITY OF SHORELINE, WASHINGTON

ORDINANCE NO. 454

AN ORDINANCE of the City of Shoreline, Washington, relating to contracting indebtedness; providing for the issuance, specifying the maturities, interest rates, terms and covenants of \$18,795,000 par value of Unlimited Tax General Obligation Bonds, 2006, authorized by the qualified voters of the City at a special election held therein pursuant to Ordinance No. 409; establishing a bond redemption fund and [a project] fund; and approving the sale and providing for the delivery of the bonds to _____ of _____, _____.

WHEREAS, the City of Shoreline, Washington (the "City") does not have sufficient funds available to pay for costs of acquiring property to preserve open spaces and natural areas, improve neighborhood parks, improve existing parks and facilities, improve and develop sports fields, and improve existing trails and provide new walking and fitness paths, all as more particularly defined and described in Section 1 herein (together, the "Project").

WHEREAS, to pay costs of the Project, the City Council of the City hereby deems it necessary and advisable that the City issue and sell its unlimited tax general obligation bonds in the principal amount of no more than \$18,795,000 (the "Bonds") (or such lesser maximum amount as may be legally issued under the laws governing the limitation of indebtedness).

WHEREAS, the City's voters on May 16, 2006, approved a ballot proposition authorizing the City to issue the Bonds, expend the proceeds thereof to pay costs of the Project, and levy annual excess property taxes to pay and retire the Bonds.

WHEREAS, _____, ("_____ " or the "Bond Insurer"), has made a commitment to issue an insurance policy (the "_____ Insurance Policy") insuring the payment when due of the principal of and interest on the Bonds as provided therein,

and the City Council deems that the purchase of the _____ Insurance Policy is in the best interest of the City; and

WHEREAS, the City has received bids for the purchase of such bonds, the best bid being that of _____, which bid the City Council now deems to be in the best interest of the City to accept; NOW, THEREFORE;

THE CITY COUNCIL OF THE CITY OF SHORELINE, WASHINGTON, DO ORDAIN as follows:

Section 1. Authorization of Bonds Pursuant to Election. The City of Shoreline, Washington (the "City"), shall issue and sell the total \$18,795,000 par value of negotiable general obligation bonds authorized by the qualified voters of the City at a special election held on May 16, 2006, pursuant to Ordinance No. 409 passed and approved February 21, 2006, for the purpose of paying costs of acquiring property to preserve open spaces and natural areas, improve neighborhood parks, improve existing parks and facilities, improve and develop sports fields, and improve existing trails and provide new walking and fitness paths as further described below (collectively, the "Project"):

- Hamlin Park property addition (approximately 8.3 acres)
- Richmond Beach Saltwater Park Improvements
- Trails and Paths
- South Woods Property Acquisition (approximately 12.6 acres)
- Cromwell Park Improvements
- Kruckeberg Gardens acquisition and parking improvements (approximately 4 acres)
- Field Turf at Twin Ponds Park
- Hamlin Park Improvements
- Baseball/Softball Field Improvements
- Off-leash Dog Park
- Tennis Court Lighting at Shoreline Center

Section 2. Description of Bonds. The bonds shall be called Unlimited Tax General Obligation Bonds, 2006, of the City (the "Bonds"); shall be in the aggregate principal amount of

\$18,795,000; shall be dated their date of initial delivery; shall be in the denomination of \$5,000 or any integral multiple thereof within a single maturity; shall be numbered separately in the manner and with any additional designation as the fiscal agent of the State of Washington (as the same may be designated by the State of Washington from time to time) (the "Bond Registrar") deems necessary for purposes of identification; shall bear interest (computed on the basis of a 360 day year of twelve 30 day months) payable semiannually on each June 1 and December 1, commencing June 1, 2007, to the maturity or earlier redemption of the Bonds; and shall mature on December 1 in years and amounts and bear interest at the rates per annum as follows:

<u>Maturity Years</u>	<u>Amounts</u>	<u>Interest Rates</u>
2007	\$ 975,000	
2008	995,000	
2009	1,030,000	
2010	1,065,000	
2011	1,105,000	
2012	1,145,000	
2013	1,185,000	
2014	1,230,000	
2015	1,280,000	
2016	1,325,000	
2017	1,380,000	
2018	1,430,000	
2019	1,490,000	
2020	1,550,000	
2021	1,610,000	

The life of the capital assets to be acquired or improved with the proceeds of the Bonds exceeds the term of the Bonds.

Section 3. Registration and Transfer of Bonds. The Bonds shall be issued only in registered form as to both principal and interest and shall be recorded on books or records maintained by the Bond Registrar (the "Bond Register"). The Bond Register shall contain the

name and mailing address of the owner of each Bond and the principal amount and number of each of the Bonds held by each owner.

Bonds surrendered to the Bond Registrar may be exchanged for Bonds in any authorized denomination of an equal aggregate principal amount and of the same interest rate and maturity. Bonds may be transferred only if endorsed in the manner provided thereon and surrendered to the Bond Registrar. Any exchange or transfer shall be without cost to the owner or transferee. The Bond Registrar shall not be obligated to exchange or transfer any Bond during the 15 days preceding any principal payment or redemption date.

The Bonds initially shall be registered in the name of Cede & Co., as the nominee of The Depository Trust Company, New York, New York ("DTC"). The Bonds so registered shall be held in fully immobilized form by DTC as depository in accordance with the provisions of a Blanket Issuer Letter of Representations with DTC substantially in the form on file with the City Clerk and by this reference made a part hereof (as it may be amended from time to time, the "Letter of Representations"). To induce DTC to accept the Bonds as eligible for deposit at DTC, the City approves the Letter of Representations. The Mayor or City Manager of the City is authorized and directed to execute and deliver the Letter of Representations, on behalf of the City, to DTC on or before the date of delivery of the Bonds to the purchaser thereof and the payment therefor, with such changes as the Mayor or City Manager of the City deems to be in the best interest of the City, and the execution and delivery of the Letter of Representations shall evidence irrevocably the approval of the Letter of Representations by the City. 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 regarding accuracy of any records maintained by DTC or DTC participants of any amount in respect of principal of or

interest on the Bonds, or any notice that is permitted or required to be given to registered owners hereunder (except such notice as is required to be given by the Bond Registrar to DTC).

For as long as any Bonds are held in fully immobilized form, DTC, its nominee or its successor depository shall be deemed to be the registered owner for all purposes hereunder and all references to registered owners, bondowners, bondholders or the like shall mean DTC or its nominee and, except for the purpose of the City's undertaking herein to provide continuing disclosure, 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: (i) 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; (ii) to any substitute depository appointed by the City or such substitute depository's successor; or (iii) to any person 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 that it no longer wishes to continue 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.

If (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 Bonds are to be in certificated form, the ownership of Bonds may be transferred to any person as provided herein and the Bonds no longer shall be held in fully immobilized form.

Section 4. Payment of Bonds. 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 paid by checks or drafts of the Bond Registrar mailed on the interest payment date to the registered owners at the addresses appearing on the Bond Register on the 15th day of the month preceding the interest payment date or, if requested in writing by a registered owner of Bonds prior to the applicable record date, by electronic transfer on the interest payment date, provided that costs of the electronic transfer will be paid by the requesting registered owner. Principal of the Bonds shall be payable upon presentation and surrender of the Bonds by the registered owners to the Bond Registrar. Notwithstanding the foregoing, as long as the Bonds are registered in the name of DTC or its nominee, payment of principal of and interest on the Bonds shall be made in the manner set forth in the Letter of Representations.

Section 5. Redemption Provisions and Open Market Purchase of Bonds. Bonds maturing in the years 2007 through 2016, inclusive, shall be issued without the right or option of the City to redeem those Bonds prior to their stated maturity dates. The City reserves the right and option to redeem the Bonds maturing on or after December 1, 2017, prior to their stated maturity dates at any time on or after December 1, 2016, as a whole or in part (within one or more maturities selected by the City and randomly within a maturity in such manner as the Bond Registrar shall determine), at par plus accrued interest to the date fixed for redemption.

[ADD FOR TERM BONDS]

[Bonds maturing in _____ are Term Bonds and, if not redeemed under the optional redemption provisions set forth above or purchased in the open market under the provisions set forth below, shall be called for redemption randomly (in such manner as the Bond Registrar shall determine) at par plus accrued interest on December 1 in years and amounts as follows:

Mandatory
Redemption
Years

Mandatory
Redemption
Amounts

[If the City redeems under the optional redemption provisions, purchases in the open market or defeases Term Bonds, the par amount of the Term Bonds so redeemed, purchased or defeased (irrespective of their actual redemption or purchase prices) shall be credited against one or more scheduled mandatory redemption amounts for those Term Bonds. The City shall determine the manner in which the credit is to be allocated and shall notify the Bond Registrar in writing of its allocation at least 60 days prior to the earliest mandatory redemption date for that maturity of Term Bonds for which notice of redemption has not already been given.]

Portions of the principal amount of any Bond, in installments of \$5,000 or any integral multiple thereof, may be redeemed. If less than all of the principal amount of any Bond is redeemed, upon surrender of that Bond to the Bond Registrar, there shall be issued to the registered owner, without charge therefor, a new Bond (or Bonds, at the option of the registered owner) of the same maturity and interest rate in any of the denominations authorized by this ordinance in the aggregate principal amount remaining unredeemed.

The City further reserves the right and option to purchase any or all of the Bonds in the open market at any time at any price acceptable to the City plus accrued interest to the date of purchase.

All Bonds purchased or redeemed under this section shall be cancelled.

Notwithstanding the foregoing, for as long as the Bonds are registered in the name of DTC or its nominee, selection of Bonds for redemption shall be in accordance with the Letter of Representations.

Section 6. Notice of Redemption. The City shall cause notice of any intended redemption of Bonds to be given not less than 30 nor more than 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 at the time the Bond Registrar prepares the notice, and the requirements of this sentence shall be deemed to have been fulfilled when notice has been mailed as so provided, whether or not it is actually received by the owner of any Bond. Interest on Bonds called for redemption shall cease to accrue on the date fixed for redemption unless the Bond or Bonds called are not redeemed when presented pursuant to the call. In addition, the redemption notice shall be mailed within the same period, postage prepaid, to Moody's Investors Service, Inc., and Standard & Poor's at their offices in New York, New York, or their successors, [to _____, at its principal office in _____, Washington, or its successor,] [to _____ (the "Bond Insurer") at its principal office in _____, New York, or its successor,] to each NRMSIR or the MSRB and to such other persons and with such additional information as the City Finance Director shall determine, but these additional mailings shall not be a condition precedent to the redemption of Bonds. Notwithstanding the foregoing, for as long as the Bonds are registered in the name of DTC or its nominee, notice of redemption shall be given in accordance with the Letter of Representations.

Section 7. Failure to Redeem Bonds. If any Bond is not redeemed when properly presented at its maturity or call date, the City shall be obligated to pay interest on that Bond at

the same rate provided in the Bond from and after its maturity or call date until that Bond, both principal and interest, is paid in full or until sufficient money for its payment in full is on deposit in the bond redemption fund hereinafter created and the Bond has been called for payment by giving notice of that call to the registered owner thereof.

Section 8. Pledge of Taxes. For as long as any of the Bonds are outstanding, the City irrevocably pledges to levy taxes annually without limitation as to rate or amount on all of the taxable property within the City in an amount sufficient, together with other money legally available and to be used therefor, to pay when due the principal of and interest on the Bonds, and the full faith, credit and resources of the City are pledged irrevocably for the annual levy and collection of those taxes and the prompt payment of that principal and interest.

Section 9. Form and Execution of Bonds. The Bonds shall be printed or lithographed on good bond paper in a form consistent with the provisions of this ordinance and state law, shall be signed by the Mayor and City Clerk, either or both of whose signatures may be manual or in facsimile, and the seal of the City or a facsimile reproduction thereof shall be impressed or printed thereon.

Only Bonds bearing a Certificate of Authentication in the following form, manually signed by the Bond Registrar, shall be valid or obligatory for any purpose or entitled to the benefits of this ordinance:

CERTIFICATE OF AUTHENTICATION

This Bond is one of the fully registered City of Shoreline, Washington, Unlimited Tax General Obligation Bonds, 2006, described in the Bond Ordinance.

WASHINGTON STATE FISCAL AGENT
Bond Registrar

By _____
Authorized Signer

The authorized signing of a Certificate of Authentication shall be conclusive evidence that the Bond so authenticated has been duly executed, authenticated and delivered and is entitled to the benefits of this ordinance.

If any officer whose facsimile signature appears on the Bonds ceases to be an officer of the City authorized to sign bonds before the Bonds bearing his or her facsimile signature are authenticated or delivered by the Bond Registrar or issued by the City, those Bonds nevertheless may be authenticated, issued and delivered and, when authenticated, issued and delivered, shall be as binding on the City as though that person had continued to be an officer of the City authorized to sign bonds. Any Bond also may be signed on behalf of the City by any person who, on the actual date of signing of the Bond, is an officer of the City authorized to sign bonds, although he or she did not hold the required office on the date of issuance of the Bonds.

Section 10. Bond Registrar. The Bond Registrar shall keep, or cause to be kept, sufficient books for the registration and transfer of the Bonds, which shall be open to inspection by the City at all times. The Bond Registrar is authorized, on behalf of the City, to authenticate and deliver Bonds transferred or exchanged in accordance with the provisions of the Bonds and this ordinance, to serve as the City's paying agent for the Bonds and to carry out all of the Bond

Registrar's powers and duties under this ordinance and City Ordinance No. _____ establishing a system of registration for the City's bonds and obligations.

The Bond Registrar shall be responsible for its representations contained in the Bond Registrar's 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 members of, or in any other capacity with respect to, any committee formed to protect the rights of Bond owners.

Section 11. Preservation of Tax Exemption for Interest on Bonds. The City covenants that it will take all actions necessary to prevent interest on the Bonds from being included in gross income for federal income tax purposes, and it will neither take any action nor make or permit any use of proceeds of the Bonds or other funds of the City treated as proceeds of the Bonds at any time during the term of the Bonds, which will cause interest on the Bonds to be included in gross income for federal income tax purposes. The City also covenants that it will, to the extent the arbitrage rebate requirement of Section 148 of the Internal Revenue Code of 1986, as amended (the "Code"), is applicable to the Bonds, take all actions necessary to comply (or to be treated as having complied) with that requirement in connection with the Bonds, including the calculation and payment of any penalties that the City has elected to pay as an alternative to calculating rebatable arbitrage, and the payment of any other penalties if required under Section 148 of the Code to prevent interest on the Bonds from being included in gross income for federal income tax purposes.

Section 12. Refunding or Defeasance of the Bonds. The City may issue refunding bonds pursuant to the laws of the State of Washington or use money available from any other

lawful source to pay when due the principal of and interest on the Bonds, or any portion thereof included in a refunding or defeasance plan, and to redeem and retire, refund or defease all such then-outstanding Bonds (hereinafter collectively called the “defeased Bonds”) and to pay the costs of the refunding or defeasance. If money and/or [“government obligations” (as defined in chapter 39.53 RCW, as now or hereafter amended)] [direct obligations of the United States of America] maturing at a time or times and bearing interest in amounts (together with money, if necessary) sufficient to redeem and retire, refund or defease the defeased Bonds in accordance with their terms are set aside in a special trust fund or escrow account irrevocably pledged to that redemption, retirement or defeasance of defeased Bonds (hereinafter called the “trust account”), then all right and interest of the owners of the defeased Bonds in the covenants of this ordinance and in the funds and accounts obligated to the payment of the defeased Bonds shall cease and become void. The owners of defeased Bonds shall have the right to receive payment of the principal of and interest on the defeased Bonds from the trust account. The City shall include in the refunding or defeasance plan such provisions as the City deems necessary for the random selection of any defeased Bonds that constitute less than all of a particular maturity of the Bonds, for notice of the defeasance to be given to the owners of the defeased Bonds and to such other persons as the City shall determine, and for any required replacement of Bond certificates for defeased Bonds. The defeased Bonds shall be deemed no longer outstanding, and the City may apply any money in any other fund or account established for the payment or redemption of the defeased Bonds to any lawful purposes as it shall determine.

If the Bonds are registered in the name of DTC or its nominee, notice of any defeasance of Bonds shall be given to DTC in the manner prescribed in the Letter of Representations for notices of redemption of Bonds.

Notwithstanding anything in this section to the contrary, if the principal of and/or interest due on the Bonds is paid by the Bond Insurer pursuant to the _____ Insurance Policy, the Bonds shall be treated as remaining outstanding for all purposes, not defeased or otherwise satisfied and shall not be considered paid by the City, and the assignment and pledge of the taxes and all other covenants, agreements and other obligations of the City to the registered owners of the Bonds shall continue to exist and shall run to the benefit of the Bond Insurer, and the Bond Insurer shall be subrogated to the rights of those registered owners.

Section 13. Bond Fund and Deposit of Bond Proceeds. There is created and established in the office of the City Finance Director a special fund designated as the Unlimited Tax General Obligation Bond Fund, 2006 (the "Bond Fund"). Accrued interest on the Bonds, if any, received from the sale and delivery of the Bonds shall be paid into the Bond Fund. All taxes collected for and allocated to the payment of the principal of and interest on the Bonds shall be deposited in the Bond Fund.

There [also is] [has been previously] created and established in the office of the City Finance Director a special fund designated as the _____ Fund, _____ (the "Project Fund"). The principal proceeds [and premium, if any,] received from the sale and delivery of the Bonds shall be paid into the Project Fund and used for the purposes specified in Section 1 of this ordinance. Until needed to pay the costs of the Project and costs of issuance of the Bonds, the City may invest principal proceeds temporarily in any legal investment, and the investment earnings may be retained in the Project Fund and be spent for the purposes of that fund except that earnings subject to a federal tax or rebate requirement may be withdrawn from the Project Fund and used for those tax or rebate purposes.

Section 14. Approval of Sale and Bid Award. The Finance Director has fixed a date and time for, and advertised, an offer for the sale of the Bonds. Gaidos Consulting LLC, the City's Financial Advisor (the "Financial Advisor"), on behalf of the Finance Director, posted a Notice of Bond Sale, containing terms consistent with this ordinance, and the Preliminary Official Statement for the Bonds on the website of Parity, an electronic bidding service available to investment banks and others who in the judgment of the Finance Director were interested in purchasing the Bonds. Bids for the Bonds were received by the Financial Advisor, on behalf of the Treasurer, until 8:30 a.m., Prevailing Pacific Time, on November 29, 2006, at which time and place all bids were publicly reviewed.

The electronic bid of _____ was the best bid received. The City Council finds that such bid is in the City's best interest and therefore ratifies the acceptance of such bid.

The Bonds will be prepared at City expense and will be delivered to the purchaser in accordance with the terms of the winning bid, (adjusted as to size and maturity amounts consistent with the Official Notice of Bond Sale) with the approving legal opinion of Foster Pepper PLLC, municipal bond counsel of Seattle, Washington, regarding the Bonds.

The proper City officials are authorized and directed to do everything necessary for the prompt delivery of the Bonds to the purchaser and for the proper application and use of the proceeds of the sale thereof.

Section 15. Preliminary Official Statement Deemed Final. The City Council has been provided with copies of a preliminary official statement dated _____, 2006 (the "Preliminary Official Statement"), prepared in connection with the sale of the Bonds. For the sole purpose of the Bond purchaser's compliance with Securities and Exchange

Commission Rule 15c2-12(b)(1), the City “deems final” that Preliminary Official Statement as of its date, except for the omission of information as to offering prices, interest rates, selling compensation, aggregate principal amount, principal amount per maturity, maturity dates, options of redemption, delivery dates, ratings and other terms of the Bonds dependent on such matters.

Section 16. Undertaking to Provide Continuing Disclosure. To meet the requirements of United States Securities and Exchange Commission (“SEC”) Rule 15c2-12(b)(5) (the “Rule”), as applicable to a participating underwriter for the Bonds, the City makes the following written undertaking (the “Undertaking”) for the benefit of holders of the Bonds:

(a) Undertaking to Provide Annual Financial Information and Notice of Material Events. The City undertakes to provide or cause to be provided, either directly or through a designated agent:

(i) To each nationally recognized municipal securities information repository designated by the SEC in accordance with the Rule (“NRMSIR”) and to a state information depository, if any, established in the State of Washington (the “SID”) annual financial information and operating data of the type included in the final official statement for the Bonds and described in subsection (b) of this section (“annual financial information”);

(ii) To each NRMSIR or the Municipal Securities Rulemaking Board (“MSRB”), and to the SID, timely notice of the occurrence of any of the following events with respect to the Bonds, if 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 holders of the Bonds; (8) Bond calls (other than scheduled mandatory redemptions of Term Bonds); (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds; and (11) rating changes; and

(iii) To each NRMSIR or to the MSRB, and to the SID, timely notice of a failure by the City to provide required annual financial

information on or before the date specified in subsection (b) of this section.

(b) Type of Annual Financial Information Undertaken to be Provided.

The annual financial information that the City undertakes to provide in subsection (a) of this section:

(i) Shall consist of (1) annual financial statements prepared (except as noted in the financial statements) in accordance with generally accepted accounting principles applicable to governmental units, as such principles may be changed from time to time, which statements shall not be audited, except, however, that if and when audited financial statements are otherwise prepared and available to the City they will be provided; (2) authorized, issued and outstanding balance of general obligation bonds; (3) assessed valuation for the fiscal year; and (4) regular property tax levy rate and regular property tax levy rate limit for the fiscal year;

(ii) Shall be provided to each NRMSIR and the SID, not later than the last day of the ninth month after the end of each fiscal year of the City (currently, a fiscal year ending December 31), as such fiscal year may be changed as required or permitted by State law, commencing with the City's fiscal year ending December 31, 2006; and

(iii) May be provided in a single or multiple documents, and may be incorporated by reference to other documents that have been filed with each NRMSIR and the SID, or, if the document incorporated by reference is a "final official statement" with respect to other obligations of the City, that has been filed with the MSRB.

(c) Amendment of Undertaking. The Undertaking is subject to amendment after the primary offering of the Bonds without the consent of any holder of any Bond, or of any broker, dealer, municipal securities dealer, participating underwriter, rating agency, NRMSIR, the SID or the MSRB, under the circumstances and in the manner permitted by the Rule.

The City will give notice to each NRMSIR or the MSRB, and the SID, of the substance (or provide a copy) of any amendment to the Undertaking and a brief statement of the reasons for the amendment. If the amendment changes the type of annual financial information to be provided, the annual financial information containing the amended financial information will include a narrative explanation of the effect of that change on the type of information to be provided.

(d) Beneficiaries. The Undertaking evidenced by this section shall inure to the benefit of the City and any holder of Bonds, and shall not inure to the benefit of or create any rights in any other person.

(e) Termination of Undertaking. The City's obligations under this Undertaking shall terminate upon the legal defeasance of all of the Bonds. In addition, the City's obligations under this Undertaking shall terminate if those provisions of the Rule which require the City to comply with this Undertaking become legally inapplicable in respect of the Bonds for any reason, as confirmed by an opinion of nationally recognized bond counsel or other counsel familiar with federal securities laws delivered to the City, and the City provides timely notice of such termination to each NRMSIR or the MSRB and the SID.

(f) Remedy for Failure to Comply with Undertaking. As soon as practicable after the City learns of any failure to comply with the Undertaking, the City will proceed with due diligence to cause such noncompliance to be corrected. No failure by the City or other obligated person to comply with the Undertaking shall constitute a default in respect of the Bonds. The sole remedy of any holder of a Bond shall be to take such actions as that holder deems necessary, including seeking an order of specific performance from an appropriate court, to compel the City or other obligated person to comply with the Undertaking.

(g) Designation of Official Responsible to Administer Undertaking. The Finance Director of the City (or such other officer of the City who may in the future perform the duties of that office) or his or her designee is authorized and directed in his or her discretion to take such further actions as may be necessary, appropriate or convenient to carry out the Undertaking of the City in respect of the Bonds set forth in this section and in accordance with the Rule, including, without limitation, the following actions:

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

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

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

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

(v) Effecting any necessary amendment of the Undertaking.

(h) Centralized Dissemination Agent. To the extent authorized by the SEC, the City may satisfy the Undertaking by transmitting the required filings using <http://www.disclosureusa.org> (or such other centralized dissemination agent as may be approved by the SEC).

Section 17. Bond Insurance. [To be completed upon selection of Bond Insurer.]

Section 18. Effective Date of Ordinance. This ordinance shall take effect and be in force from and after its passage and five (5) days following its publication as required by law.]

PASSED BY THE CITY COUNCIL ON NOVEMBER 29, 2006.

Mayor Robert L. Ransom

ATTEST:

APPROVED AS TO FORM:

Scott Passey
City Clerk

Ian Sievers
City Attorney

CERTIFICATION

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

1. The attached copy of Ordinance No. ____ (the "Ordinance") is a full, true and correct copy of an ordinance duly passed at a special meeting of the City Council of the City held at the regular [a special] meeting place thereof on November 29, 2006, as that ordinance appears on the minute book of the City; and the Ordinance will be in full force and effect five days after publication in the City's official newspaper; and

2. Written notice specifying the time and place of the special meeting and noting the business to be transacted was given to all members of the City Council by mail or by personal delivery at least 24 hours prior to the special meeting, a true and complete copy of which notice is attached hereto as Appendix 1;

3. No local radio or television stations, or newspapers of general circulation, have on file with the City a written request to be notified of any special meetings; **[OR]** Written notice of the special meeting was given to each local radio or television station and to each newspaper of general circulation that has on file with the City a written request to be notified of special meetings, or to which such notice customarily is given;

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

IN WITNESS WHEREOF, I have hereunto set my hand this ____ day of November, 2006.

CITY OF SHORELINE, WASHINGTON

Scott Passey, City Clerk