

PORT LUDLOW DRAINAGE DISTRICT

RESOLUTION NO. 7

A RESOLUTION of the Board of Commissioners of the Port Ludlow Drainage District, Jefferson County, Washington, authorizing the incurrence of indebtedness and the issuance of a revenue anticipation note of the District in a principal amount not to exceed \$30,000 to establish a line of credit to provide funds for operational expenditures of the District pending the receipt of District assessments; providing for the date, denomination, form, registration, maturity, interest rate, terms and covenants of such note; creating a note fund; and providing for the delivery of such note to American Marine Bank, Bainbridge Island, Washington in exchange for such line of credit.

WHEREAS, the Port Ludlow Drainage District (the "District") was established under procedures set forth under Chapter 85.38 RCW (the "Act"); and

WHEREAS, pursuant to the Act, Jefferson County has authorized an assessment system to be used by the District to levy District assessments set by the District.

WHEREAS, the Board of Commissioners of the District (the "Board") finds that the periodic collections of District assessments and other revenue in 2002 will not be sufficient to meet necessary District expenses as they are incurred in the same period of time, and

WHEREAS, chapter 39.50 RCW authorizes local governments to sell short-term obligations in the form of revenue anticipation notes and RCW 39.46.050 authorizes local governments to establish lines of credit with any qualified public depository to be drawn upon in exchange for its obligations; and

WHEREAS, the Board finds that it is in the best interests of the District and its residents that the District incur indebtedness and issue its revenue anticipation note in a principal amount not to exceed \$30,000 to establish a line of credit to provide funds for operational expenditures of the District pending the receipt of assessments; and

WHEREAS, the issuance of such note will not require prior submission to and approval by the voters of the District and such note, when issued, will not violate any constitutional or statutory debt limitations applicable to the District; and

WHEREAS, American Marine Bank (the "Bank") has submitted a letter of commitment to establish a line of credit on the terms and conditions set forth herein in exchange for the note; and

WHEREAS, the Board deems it in the best interests of the District to accept such offer, to deliver the note to the Bank and to establish such line of credit;

NOW, THEREFORE, THE BOARD OF COMMISSIONERS OF THE PORT LUDLOW DRAINAGE DISTRICT, JEFFERSON COUNTY, WASHINGTON HEREBY RESOLVES AS FOLLOWS:

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

“Assessments” means the District assessments levied pursuant to the assessment system authorized by Jefferson County on all properties within the District as set by the Board through the adoption of the District budget.

“Bank” means American Marine Bank and its successors.

“Board” means the Board of Commissioners of the District as the same shall be duly constituted from time to time.

“Code” means the Internal Revenue Code of 1986, as amended, together with all applicable regulations thereunder.

“District” means the Port Ludlow Drainage District, Jefferson County, Washington.

“Draw Request” means a written request for a draw under the Line of Credit made by an authorized person on behalf of the District, as provided in Section 4 herein.

“Line of Credit” means the line of credit authorized by this Resolution to be established with the Bank.

“Note” means the “Port Ludlow Drainage District, Jefferson County, Washington, Revenue Anticipation Note, 2002” authorized by this Resolution.

“Note Fund” means the “Revenue Anticipation Note Fund, 2002” of the District created by Section 12 of this Resolution.

“Note Register” means the registration books for the Note maintained by the Registrar.

“Outstanding Principal Balance of the Note” on any particular day means the aggregate of all funds that the District has drawn under the Line of Credit pursuant to the Note, less the aggregate of all principal payments on the Note made by the District on or before that day.

“Owner” means the person who is named as the registered owner of the Note on the Note Register.

“Prime Rate” means the rate of interest listed as the “prime rate” in the Wall Street Journal.

“Registrar” means the Jefferson County Treasurer in its capacity as paying agent, registrar and transfer agent for the Note.

Section 2. Purpose and Description of Note. For the purpose of establishing a line of credit to provide funds for operational expenditures of the District pending the receipt of District assessments, the District hereby authorizes the incurrence of indebtedness and the issuance of its “Revenue Anticipation Note, 2002”.

The Note shall be issued as a single note in the principal amount not exceeding \$30,000 outstanding at any one time; shall be dated the date of the first Draw Request thereunder; shall be issued in fully registered form as to both principal and interest; shall be numbered in such manner and with any additional designation as the Registrar deems necessary for purposes of identification; and shall mature on December 31, 2002.

The Note shall bear interest on the Outstanding Principal Balance of the Note at the variable rate of an amount equal to the Prime Rate minus one quarter of one percent (0.25%) (computed on the basis of a 365-day year), for the actual number of days the Outstanding Principal Balance is Outstanding. The rate will be changed on the day on which the Wall Street Journal announces a change in the Prime Rate. Interest shall be calculated to the last day of each month, payable on the 1st day of each month to the maturity or earlier prepayment of the Note and may be paid from a draw under the Line of Credit. At any time and without notice, principal may be prepaid, in whole or in part, with or without the interest accrued thereon, without fee, and such principal amount prepaid shall then be available to be drawn again under the Line of Credit. The Outstanding Principal Balance of the Note, together with all interest accrued and unpaid thereon, shall be payable upon maturity of the Note.

If a payment is 15 days or more late, the District shall pay the Owner a late payment fee of 5.0% of the payment due or \$50.00, whichever is greater.

The Outstanding Principal Balance of the Note on any particular day shall be the aggregate of all funds that the District has drawn under the Line of Credit from the date of the Note to that day, less the aggregate of all principal payments made by the District on or before that day. Interest on a particular principal amount so advanced shall be determined from the date of the advance of Note proceeds pursuant to the related Draw Request.

Section 3. Place, Manner and Medium of Payment. Both principal of and interest on the Note shall be payable by the Registrar in lawful money of the United States of America. Prepaid principal of the Note and interest, if any, on the Note shall be paid by check or draft mailed to the Owner at the address for such Owner appearing on the Note Register on the day such payment is made. The Outstanding Principal Balance of the Note, together with all interest accrued thereon, shall be paid to the Owner at the address for such Owner appearing on the Note Register on the day such payment is made upon presentation and surrender of the Note by the Owner at the office of the Registrar upon maturity; provided, that the Owner may be paid principal and

interest by wire transfer to an account in the United States, but only if such Owner makes a written request of the Registrar, received before the close of the Registrar's business on the day immediately preceding the date scheduled for payment of such principal and interest, which request shall specify the account number and address which request may provide that it remain in effect until changed or revoked in writing. The Registrar shall keep sufficient books for the registration and transfer of the Note.

Section 4. Draw Request. The President or the Treasurer of the Board are each hereby authorized to make Draw Requests under the Line of Credit; provided, that the first Draw Request shall be accompanied by the Note and other documents described in Section 9 hereof; and provided further, that no Draw Request may be made on or after December 30, 2002. A Draw Request shall be made in writing signed by any one of such authorized persons at any time prior to the maturity date of the Note.

Section 5. Source of Payment. The Note is a special fund revenue obligation of the District. Both the principal of and the interest on the Note shall be payable solely out of the Note Fund to be funded from Assessments and/or other funds, if available for such purpose. The Note shall not constitute an indebtedness of the State of Washington, either general or special or of Jefferson County, either general or special, or a general obligation of the District.

Section 6. Form and Execution of Note. The Note shall be typewritten or word-processed in a form consistent with this Resolution and Washington law. The Note shall be signed by the manual signatures of the President and the Secretary of the Board.

In case either or both of the officers who shall have executed the Note shall cease to be such officer or officers of the Board before the Note so signed shall have been delivered by the Registrar or issued by the District, the Note nevertheless may be delivered and issued and upon such delivery and issuance, shall be as binding upon the District as though those who signed the same had continued to be such officers of the Board. The Note also may be signed and attested on behalf of the District by such persons as at the actual date of execution of the Note shall be the proper officers of the Board although at the original date of the Note such persons were not such officers of the Board.

Section 7. Registration; Transfer. The Registrar shall keep, or cause to be kept, at the Registrar's office, the Note Register. The Registrar is authorized to carry out all of the Registrar's powers and duties under this Resolution.

The District may deem and treat the Owner of the Note as the absolute owner thereof for all purposes, and the District shall not be affected by any notice to the contrary. Payment of the Note shall be made only as described in Section 3 hereof. All such payments made as provided in Section 3 hereof shall be valid and shall satisfy and discharge the liability of the District upon the Note to the extent of the amount or amounts so paid.

The District covenants that, until the Note shall have been surrendered and cancelled, it will maintain a system of recording the ownership of the Note that complies with the provisions of the Code.

The registered ownership of the Note may not be transferred, except for transfer to a successor in interest to the Owner as a result of merger or consolidation.

Section 8. Mutilated, Lost, Stolen or Destroyed Note. If the Note becomes mutilated, lost, stolen or destroyed, the District may issue and deliver a new Note of the same number and interest rate, for the same principal amount, and of like tenor and effect in substitution therefor, all in accordance with law. If such mutilated, lost, stolen or destroyed Note has matured, the District, at its option, may pay the same without the surrender thereof. However, no such substitution or payment shall be made unless and until the applicant shall furnish evidence satisfactory to the District of the destruction or loss of the original Note and the ownership thereof, and such additional security, indemnity or evidence as may be required by or on behalf of the District. No substitute Note shall be furnished unless the applicant shall reimburse the District for its expenses in the furnishing thereof.

Section 9. Sale of Note. The Bank has offered to establish the Line of Credit in exchange for the Note under the terms and conditions provided in its letter of commitment (the "Commitment"), a copy of which is attached hereto, and is incorporated herein by this reference. The Board finds that accepting the Commitment is in the District's best interest and therefor accepts the offer contained in the Commitment and authorizes the execution of the Commitment by the President of the Board in evidence thereof.

The Note will be prepared at District expense and will be delivered to the Bank on the date of the first Draw Request in accordance with the Purchase Offer, together with: (a) the approving legal opinion of Gottlieb, Fisher & Andrews, PLLC, bond counsel, (b) a copy of this Resolution, (c) a Tax Exemption and Nonarbitrage Certificate and a Closing Certificate of the District, and (d) a copy of the IRS form 8038G pertaining to the Note. Bond counsel has not been retained to monitor, and shall not be responsible for monitoring, the District's compliance with any federal law or regulations to maintain the tax-exempt status of the interest on the Note.

The proper District officials, including, but not limited to, the President of the Board, the Treasurer of the Board or any Commissioner, or any combination thereof, are authorized and directed to do everything necessary for the issuance, execution and delivery of the Note to the Bank in accordance with the Commitment, and for the proper application and use of the proceeds of the sale thereof.

Section 10. Delivery of Note. The proper District officials, including, but not limited to, the President of the Board, the Treasurer of the Board or any Commissioner, are authorized and directed to approve and/or execute, as appropriate, all documents, and to do everything necessary for the preparation and delivery of a transcript of proceedings pertaining to the Note, and the execution and delivery of the definitive Note to the Bank, each without unreasonable delay.

Section 11. Application of the Note Proceeds. All proceeds received from a Draw Request shall be deposited into the District's General Fund, and shall be used by the District only to provide funds for operational expenditures of the District.

Section 12. Establishment of Note Fund. There is hereby created and established with the Jefferson County Treasurer a special fund to be designated as the “Revenue Anticipation Note Fund, 2002” (the “Note Fund”). The Note Fund shall be a trust account and shall be drawn upon for the sole purpose of paying the principal of and interest on the Note. The District hereby obligates and binds itself to set aside and pay into the Note Fund out of the Assessments the amounts necessary to pay the principal of and interest on the Note as the same respectively become due and payable. Money on deposit in the Note Fund not immediately needed to pay such interest or principal may temporarily be deposited in such institutions or invested in such obligations that are legal investments for District funds. Any interest or profit from the investment of such money shall be deposited in the Note Fund. Any money remaining in the Note Fund after payment in full of the principal of and interest on the Note may be transferred to the District’s General Fund, and the Note Fund shall be closed.

Section 13. Note Covenants. The District covenants and agrees with the Owner of the Note as follows:

- (a) It will establish, maintain and collect such Assessments which will it make available for the payment of the principal of and interest on the Note as the same accrue in an amount equal to the actual debt service requirements on the Note until its maturity or earlier redemption.
- (b) It will provide monthly financial results of funds received and expenses paid within 15 days of the regular scheduled Board meetings.
- (c) It will provide the Owner of the Bond with the names of the individuals elected to serve as officers of the District within 30 days of the election of such officers together with a copy of the minutes of the Board meeting at which such officers were elected or other evidence of the election.
- (d) It will not incur any additional debt without the written consent of the Bank (which consent shall not be unreasonably withheld).

Section 14. Tax Exemption. The District covenants that it will not take or permit to be taken on its behalf any action which would adversely affect the exclusion of the interest on the Note from the gross income for purposes of federal income taxation, and will take or require to be taken such acts as may be permitted by, and as may be required from time to time under, applicable law to continue the exclusion of the interest on the Note from the gross income of the recipients thereof for purposes of federal income taxation. Without limiting the generality of the foregoing, the District will not invest or make or permit any use of the proceeds of the Note or of its other money at any time during the term of the Note, which will cause the Note to be “arbitrage bond” within the meaning of Section 148 of the Code.

The District further covenants that it shall calculate or cause to be calculated, and shall rebate to the United States, all earnings from the investment of Note proceeds that are in excess of the amount that would have been earned had the yield on such investments been equal to the

yield on the Note, plus income derived from such excess earnings, if and to the extent and in the manner required by Section 148 of the Code.

The District 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.

The District will take no actions and will make no use of the proceeds of the Note or any other funds held under this Resolution which would cause the Note to be treated as a “private activity bond” (as defined in Section 141(b) of the Code) subject to treatment under said Section 141(b) as an obligation not described in Section 103(a) of the Code, unless the exclusion from gross income of interest on the Note under the Code is not affected.

The District hereby designates the Note as a “qualified tax-exempt obligation” for the purpose of Section 265 of the code (relating to the deduction by financial institutions of the interest incurred to carry tax-exempt debt), and authorizes and directs the proper District officials to execute and deliver all documents necessary to evidence such designation to any and all interested parties. The District further covenants not to issue more than \$10,000,000 of such “qualified tax-exempt obligations” during 2002.

Section 15. Contract; Savings Clause. The covenants contained in this Resolution shall constitute a contract between the District and the Owner of the Note. The District unconditionally covenants that it will keep and perform all of the covenants of the Note and this Resolution. If any one or more of the provisions of this Resolution shall be declared unconstitutional or invalid for any reason, such decision shall not affect the validity of the remaining provisions of this Resolution or the Note, and this Resolution and the Note shall be construed and enforced as if such unconstitutional or invalid provision had not been contained herein.

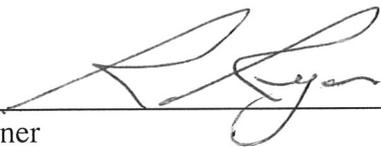
Section 16. Effective Date. This Resolution shall take effect immediately upon its adoption.

ADOPTED at an open, public, special meeting of the Board of Commissioners of the Port Ludlow Drainage District, notice of which was given as required by law, held this 19th day of December, 2001.

PORT LUDLOW DRAINAGE DISTRICT
JEFFERSON COUNTY, WASHINGTON



President



Commissioner



Commissioner