

PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY, WASHINGTON

RESOLUTION NO. 2008-004

- A RESOLUTION of the Commission of Public Utility District No. 1 of Jefferson County, Washington, establishing a line of credit and providing for the issuance and sale of a Marrowstone Island Local Utility District Bond Anticipation Note of the District in the principal amount of not to exceed \$1,700,000 to evidence the line of credit; providing the form and terms of the note; and accepting the offer of First Federal Savings and Loan Association of Port Angeles to purchase the note.

WHEREAS, the Commission (the "Commission") of Public Utility District No. 1 of Jefferson County, Washington (the "District") adopted a resolution creating the Marrowstone Island Local Utility District ("Marrowstone Island LUD") for the purpose of undertaking the Marrowstone Island Water System infrastructure development program (the "Improvements"); and

WHEREAS, the District intends to issue local utility district improvement bonds upon the completion of the Improvements and the confirmation of the assessment roll for Marrowstone Island LUD (the "Bonds") to provide permanent financing for the Improvements; and

WHEREAS, in anticipation of the issuance of the Bonds and in order to provide interim financing for the cost of the Improvements, it is hereby found in the best interest of the District that a line of credit be established with First Federal Savings and Loan Association of Port Angeles, Washington (the "Bank"), in the total principal amount of not to exceed \$1,700,000;

NOW, THEREFORE, BE IT RESOLVED BY THE COMMISSION OF PUBLIC UTILITY DISTRICT NO. 1, JEFFERSON COUNTY, WASHINGTON, as follows:

To be approved as #004 at June 18, 2008 meeting

Section 1. Definitions. As used in this resolution, the following words shall have the following meanings, unless a different meaning clearly appears from the context:

“Bank” means First Federal Savings and Loan Association of Port Angeles, Washington, or its corporate successor.

“Bank Proposal” means the proposal of the Bank, dated May 20, 2008, attached as Exhibit A.

“Bonds” means local utility district bonds to be issued to pay and redeem the Note or any refunding note or notes.

“Code” means the Internal Revenue Code of 1986, as amended, and shall include all applicable regulations and rulings relating thereto.

“Commission” means the duly constituted Commission as the general legislative authority of the District.

“Delivery Date” means the date of initial issuance and delivery of the Note to the Bank.

“Designated Representative” means the Manager of the District.

“District” means Public Utility District No. 1 of Jefferson County, Washington, a municipal corporation duly organized and existing under the laws of the State of Washington.

“Interest Rate” means 65 percent of the Prime Rate plus 25 basis points.

“Maturity Date” means the date that is nine months from the Delivery Date.

“Note” means the \$1,700,000 Marrowstone Island Local Utility District Bond Anticipation Note, 2008 of the District issued pursuant to the terms of this resolution.

“Note Fund” means the Public Utility District No. 1 of Jefferson County Marrowstone Island Local Utility District Bond Anticipation Note Fund, 2008 authorized by Section 5 of this resolution.

“Note Register” means the books or records maintained by the Registrar for the purpose of registration of the Note.

“Outstanding Principal Balance of the Note” means the aggregate of all funds which the District has drawn from the Bank pursuant to the Note less the aggregate of all principal payments on the Note made by the District.

“Prime Rate” means the rate of interest publicly announced from time to time by the Bank as its “Prime Rate,” with the “Prime Rate” changing on the date each change in said “Prime Rate” is announced by the Bank. The “Prime Rate” may not be the lowest interest rate charged by the Bank on commercial or other extensions of credit.

“Registrar” means the Treasurer.

“Request for Draw” means an oral or written request by the Designated Representative for a draw from the line of credit authorized to be established by this resolution, all as more fully described in Section 2.

“Treasurer” means the Treasurer of Jefferson County, Washington, as *ex officio* treasurer of the District, or any other public officer as may hereafter be designated pursuant to law to have the custody of District funds.

Section 2. Authorization and Description of the Note. For the purpose of providing all or part of the money required to finance the cost of the Improvements, and pay interest on and costs of issuing the Note pending the issuance of the Bonds, the District shall issue its Marrowstone Island Local Utility District Bond Anticipation Note, 2008, in the principal amount of not to exceed \$1,700,000. The Note shall be in fully registered form, shall be numbered N-1, shall be dated as of the Delivery Date, and shall mature nine months from the Delivery Date (the “Maturity Date”).

Pursuant to the Bank Proposal, amounts received from the Note shall bear interest on unpaid principal outstanding from time to time at the Interest Rate calculated on the basis of a 365-day year for actual number of days elapsed. The Interest Rate on the Note shall change on each effective date of a change in the Prime Rate. Interest shall be due and payable at the Maturity Date. Both principal of and interest on the Note shall be payable in lawful money of the United States of America. The Outstanding Principal Balance of the Note shall be due on the Maturity Date. If there occurs (i) any nonpayment of principal, interest, fee or other amounts when due under the Note or this resolution, or (ii) any failure to maintain the tax-exempt status of the Note, then the interest rate under the Note shall increase by 300 basis points and the District shall pay the Bank's reasonable attorney's fees in a procedure brought to collect amounts owed to the Bank.

The Outstanding Principal Balance of the Note on any particular day shall be the aggregate of all funds which the District has drawn 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 a Request for Draw by the District.

A Request for Draw pursuant to the Note may be made by the Designated Representative either orally or in writing to the Bank, with simultaneous notice to the Treasurer, at any time on or prior to the Maturity Date. Each Request for a Draw shall be delivered to the Treasurer and the Bank at least three days prior to the proposed drawing and shall specify the dollar amount requested, the account number to which the drawing shall be wired and the proposed date of the Drawing. The aggregate of all such draws on the Note may not exceed \$1,700,000. Principal amounts of the Note that are prepaid may not be reborrowed. Oral Requests for Draw shall

include requests by telephone, telegraph, telex or any other means of communication other than by a writing signed by the Designated Representative. The District hereby delegates to the Designated Representative authority to make a written or oral Request for Draw pursuant to this resolution. The Bank shall incur no liability to the District or to any other person in acting upon any oral or written notice or other communication which the Bank believes in good faith to have been given by an official or other person authorized to borrow on behalf of the District, or otherwise acting in good faith in making advances pursuant to this resolution.

Section 3. Registration, Payment and Transfer. The Treasurer is hereby requested to act as authenticating trustee, paying agent and registrar for the Note (the "Registrar"). Installments of the principal of and interest on the Note shall be paid by check or draft of the Registrar mailed on the date such interest is due or by electronic funds transfer made on the date such interest is due to the Bank or nominee at the address appearing on the Note Register. Upon final payment of all installments and interest thereon, the Note shall be submitted to the Registrar for cancellation and surrender.

The Note shall not be transferable, except to a corporate successor of the Bank.

Section 4. Prepayment. The District reserves the right to prepay the Note in part or in full on any business day without premium or penalty.

Section 5. Creation of Note Account and Provision for Tax Levy Payments. A special account of the District to be known as the "Public Utility District No. 1 of Jefferson County Marrowstone Island Local Utility District Bond Anticipation Note Fund, 2008" (the "Note Fund") is hereby authorized to be created and maintained by the Treasurer. 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. 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 general operating fund of the District, and the Note Fund shall be closed.

The District covenants that on or before the Maturity Date it will issue the Bonds, refunding bond anticipation notes, or a combination of the foregoing in an amount sufficient to pay the Note when due.

The Note is a general obligation of the District. The District hereby irrevocably covenants that in the event that funds are not available from other sources to pay the Note on the Maturity Date, it will include in its annual budget and levy a tax, within and as a part of the tax levy permitted to the District without a vote of the electorate, upon all the property subject to taxation in amounts sufficient, together with all other money legally available therefor, to pay the principal of and interest on the Note as the same shall become due. The full faith, credit and resources of the District are hereby irrevocably pledged for the annual levy and collection of such taxes and the prompt payment of such principal and interest.

Section 6. Tax Covenant; Special Designation. The District covenants to undertake all actions required to maintain the tax-exempt status of interest on the Note under Section 103 of the Code.

The District hereby designates the Note as a "qualified tax-exempt obligation" under Section 265(b)(3) of the Code for banks, thrift institutions and other financial institutions. The District does not expect to issue more than \$10,000,000 in qualified tax-exempt obligations during calendar year 2008.

Section 7. Form of the Note. The Note shall be in substantially the following form:

UNITED STATES OF AMERICA

NO. N-1

\$1,700,000
(or as much thereof as
is drawn hereunder)

STATE OF WASHINGTON
PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY
MARROWSTONE ISLAND LOCAL UTILITY DISTRICT
BOND ANTICIPATION NOTE, 2008

Registered Owner: First Federal Savings and Loan Association of Port Angeles

Maturity Date: March ___, 2009

Principal Amount: NOT TO EXCEED ONE MILLION SEVEN HUNDRED THOUSAND
AND NO/100 DOLLARS

Public Utility District No. 1 of Jefferson County, Washington (the "District"), a municipal corporation organized and existing under the laws of the State of Washington, hereby acknowledges itself to owe and for value received promises to pay to the Registered Owner identified above on the Maturity Date, the Principal Amount of \$1,700,000 (or so much thereof as has been drawn hereunder remaining unpaid on the Maturity Date). Amounts received under this note shall bear interest at Interest Rate computed and paid as provided in Resolution No. 08-003 of the District, adopted on June 4, 2008 (the "Note Resolution"). Capitalized terms not defined herein shall have the meanings given such terms in the Note Resolution.

A Request for Draw pursuant to this note may be made by the Designated Representative either orally or in writing at any time on or prior to the Maturity Date. The procedures for implementing drawings hereunder are as set forth in the Note Resolution. Both principal of and interest on this note are payable in lawful money of the United States of America. Upon final payment of all principal and interest thereon, this note shall be submitted to the Registrar for cancellation and surrender.

This note is issued pursuant to the Note Resolution for the purpose of financing Improvements within the Marrowstone Island Local Utility District of the District.

The District reserves the right to prepay this note in part or in full on any business day without premium or penalty.

This note has been designated as a "qualified tax-exempt obligation" for banks, thrift institutions and other financial institutions. This note is nontransferable, except to a successor to the business or assets of the Bank.

This note shall not be valid or become obligatory for any purpose or be entitled to any security or benefit under the Note Resolution until the Certificate of Authentication hereon shall have been manually signed by the Registrar.

The District hereby irrevocably covenants and agrees with the owner of this note that it will issue the Bonds or a refunding bond anticipation note on or prior to the Maturity Date in an amount sufficient to provide funds to pay all outstanding principal and interest. If funds are not otherwise sufficient, the District will include in its annual budget and levy a tax within and as a part of the tax levy permitted to the District without a vote of the electorate, upon all the property subject to taxation in amounts sufficient, together with all other money legally available therefor, to pay the principal of and interest on this note as the same shall become due. The full faith, credit and resources of the District are hereby irrevocably pledged for the annual levy and collection of such taxes and the prompt payment of such principal and interest.

It is hereby certified and declared that this note is issued pursuant to and in strict compliance with the Constitution and laws of the State of Washington and resolutions of the District, that all acts, conditions and things required to be done precedent to and in the issuance of this note have happened, been done and performed, and that this note does not exceed any Constitutional or statutory limitations.

IN WITNESS WHEREOF, Public Utility District No. 1, Jefferson County, Washington, has caused this note to be executed by the facsimile signatures of the President and Secretary of the Commission, as of this _____ day of June, 2008.

PUBLIC UTILITY DISTRICT NO. 1,
JEFFERSON COUNTY, WASHINGTON

By M. Kelly Hays /s/
Vice President, Commission

for
Wayne King President

ATTEST:

Dana Roberts
Secretary, Commission

REGISTRATION CERTIFICATE

This note is registered in the name of the Registered Owner on the books of the District, in the office of the Treasurer (the "Registrar"), as to both principal and interest, as noted in the registration blank below. All payments of principal of and interest on this note shall be made by the District with full acquittance by the Registrar's wire transfer, made payable to the last Registered Owner as shown hereon and on the registration books of the Registrar at his/her address noted hereon and on the registration books of the Registrar.

Date of Registration	Name and Address of Registered Owner	Signature of Registrar
June __, 2008	First Federal Savings & Loan 105 W. Eighth Street Port Angeles, Washington	

SCHEDULE A

STATE OF WASHINGTON PUBLIC UTILITY DISTRICT NO. 1 OF JEFFERSON COUNTY MARROWSTONE ISLAND LOCAL UTILITY DISTRICT BOND ANTICIPATION NOTE, 2008

Date	Amount of Draw	Amount of Principal Paid or Prepaid	Unpaid Principal Balance	Notation Made By

Section 8. Application of Proceeds of Note. All proceeds received from a Request for Draw under this resolution shall be deposited into the Marrowstone Island Local Utility District Fund of the District and used by the District to pay the costs of the Improvements and pay costs of issuing the Note.

Note proceeds may be invested as permitted by law.

Section 9. Execution and Authentication of the Note. The Note shall be executed on behalf of the District with the manual or facsimile signature of the President of the Commission and attested by the manual or facsimile signature of the Secretary of the Commission. The Note shall not be valid for any purpose unless or until authenticated by the Registrar.

In case either of the officers who shall have executed the Note shall cease to be an officer or officers of the District before the Note shall have been authenticated or delivered by the Registrar, or issued by the District, such Note may nevertheless be authenticated, delivered and issued and upon such authentication, 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 District. The Note may also 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 District although at the original date of the Note any such person shall not have been such officer of the District.

Section 10. Lost or Stolen Note. In case the Note shall be lost, stolen or destroyed, the Registrar may execute and deliver a new Note of like date and tenor to the owner upon the owner paying the expenses and charges of the District and upon filing with the Registrar evidence satisfactory to the Registrar that such Note was actually lost, stolen or destroyed and of its ownership thereof, and upon furnishing the District with indemnity satisfactory to the District.

Section 11. Sale of the Note. The Note shall be sold to First Federal Savings and Loan Association of Port Angeles, Washington, pursuant to the terms of this resolution and the Bank Proposal. The Bank shall be paid a commitment fee of 50 basis points of the available amount to be drawn on the Delivery Date and a fee of 25 basis points for any unfunded portion of the Note. The District covenants to perform all obligations set forth in the Bank Proposal.

Section 12. Reporting Requirements. With respect to the Note, the District is exempt from the official statement and ongoing disclosure requirements of the Securities and Exchange Commission Rule 15c2-12 under the Securities Exchange Act of 1934.

The District hereby covenants and agrees for as long as the Note remains outstanding, it will provide annually to the Bank copies of its annual financial report within 180 days of the year end and each annual budget of the District as it becomes available.

Section 13. Severability. If any provision in this resolution is declared by any court of competent jurisdiction to be contrary to law, then such provision shall be null and void and shall be deemed separable from the remaining provision of this resolution and shall in no way affect the validity of the other provisions of this resolution or of the Note.

Section 14. General Authorization; Ratification of Prior Acts. The Designated Representative and other appropriate officers of the District are authorized to take any actions and to execute documents as in their judgment may be necessary or desirable in order to carry out the terms of, and complete the transactions contemplated by, this resolution. All acts taken pursuant to the authority of this resolution but prior to its effective date are hereby ratified.

Section 15. Effective Date. This resolution shall be effective immediately upon its adoption.

ADOPTED by the Commission at a meeting thereof, held on June 4, 2008, and duly authenticated in open session by the signatures of the Commissioners present and voting in favor thereof.

PUBLIC UTILITY DISTRICT NO. 1, JEFFERSON
COUNTY, WASHINGTON

M. Kelly Hays, Vice President
for President and Commissioner

Commissioner

Dana Roberts
Commissioner

CERTIFICATE

I, the undersigned, Secretary of the Commission (the "Commission") of the Public Utility District No. 1, Jefferson County, Washington (the "District"), DO HEREBY CERTIFY:

1. That the attached Resolution No. 08-003 (the "Resolution") is a true and correct copy of a resolution of the District as finally adopted at a meeting of the Commission held on June 4, 2008, and duly recorded in my office.

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

IN WITNESS WHEREOF, I have hereunto set my hand this 4th day of June, 2008.


Secretary of the Commission

EXHIBIT A
BANK PROPOSAL

May 20, 2008

Mr. Jim Parker, Manager
Jefferson County PUD # 1
230 Chimacum Road
Port Hadlock, WA 98339

Dear Jim,

In follow-up to my previous e-mail, here are the proposed terms for a certain financing program for the Marrowstone Island project. In summary,

Bond Anticipation Note (BAN) –

Term – Up to Nine Months

Rate – 65% of Prime plus 25bps – With a current prime of 5%, this would equate to a rate of 3.5%. The rate would float with prime during the construction period.

Unused Commitment Fee – 25bps

Commitment Fee – 50bps for overall financing with initial amount of BAN at \$1,700,000 or a commitment fee of \$8,500.

Bond Term Financing

Term – Up to 20 years with 5 year repricing option.

Rate – 5 year treasury plus 150 bps. At current rates this would be 4.50%. The final rate would be set at time of conversion to term bond.

No prepayment penalty would apply.

There are no new commitment fees associated with the term bond program.

All expenses associated with structuring the BAN or the Bond, including legal expenses, would be paid by the Jefferson County PUD.

All financing terms are subject to final approval based on a review of project plans and financial assessment. Legal opinions certifying the tax exempt status of the BAN and term bond will be required as part of final approval. Bond counsel shall be as designated by Jefferson County PUD with First Federal selecting the firm of Platt, Irwin for use as their counsel in this transaction.

I trust this will be agreeable to you for your needs to prepare the resolutions. We look forward to continuing to work with the Jefferson County PUD and hope that we can continue to support your financial needs on this and other projects that may arise. As always, please feel free to call me if there are any questions on this matter. Also, I would also like to let you know that my e-mail address has changed as a result of our new branding program. The new e-mail address is reflected below. Again, thanks for everything and I look forward to speaking with you further on this opportunity.

Sincerely,
/s/ Roger Kelso

Roger Kelso
SVP – Director of Credit Administration
360-417-3123 (Office)
360-460-4536 (Cell)
360-417-3190 (Fax)
Roger.Kelso@ourfirstfed.com