

RESOLUTION NO. 574

A RESOLUTION of the Board of Commissioners of Birch Bay Water and Sewer District, Whatcom County, Washington, providing for the issuance and sale of \$7,170,000 of water and sewer revenue bond anticipation notes of the District for the purpose of repaying bond anticipation notes; providing the date, form, terms, maturities and covenants of the notes to be issued; providing certain covenants to safeguard the payment of the principal thereof and interest thereon; and confirming the sale of said notes.

WHEREAS, Birch Bay Water and Sewer District (the "District") owns, operates and maintains a system of sewers and water supply and distribution for the District, and has consolidated the water and sewer systems into a combined water and sewer system (the "System"); and

WHEREAS, the District issued revenue bond anticipation notes ("1995 Notes") in order to finance water and sewer improvements in the District; and

WHEREAS, it appears to the Board of Commissioners of the District that it is in the best interest of the District in order to repay the 1995 Notes, that it issue additional notes and that such notes be sold to Seattle-Northwest Securities Corporation on the terms set forth in their proposal and as provided in this resolution;

NOW, THEREFORE, BE IT RESOLVED by the Board of Commissioners of Birch Bay Water and Sewer District, Whatcom County, Washington, as follows:

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

"Assessments" means assessments or installments thereof levied in any utility local improvement district of the District, and shall include interest and any penalties thereon and any interest earnings from the investment thereof.

"Assessment Payment Period" means the period during which any Assessment may be paid without becoming delinquent.

"Bonds" means any future water and sewer revenue bonds issued by the District.

"Board" means the Board of Commissioners of the District as the same shall be duly and regularly constituted from time to time.

"Cost of Maintenance and Operation" means all necessary expenses of operating the System, current maintenance expenses, expenses of reasonable upkeep and repairs, insurance and administrative expenses, but excludes depreciation, payments for debt service or into reserve accounts and costs of capital additions to or replacements of the System.

"District" means Birch Bay Water and Sewer District, Whatcom County, Washington, a municipal corporation duly organized and existing under and by virtue of the laws of the State of Washington.

"DTC" means The Depository Trust Company.

"Government Obligations" has the meaning given to such term in RCW Chapter 39.53, as the same may be amended from time to time.

"Letter of Representation" means the form of letter to DTC so named which is now on file with the District.

"Net Revenue" means the Revenue of the System less the Cost of Maintenance and Operation.

"1995 Notes" means the Revenue Bond Anticipation Notes, 1995.

"Note Fund" means the "Birch Bay Water and Sewer District Revenue Bond Anticipation Note Redemption Fund" created by Section 8 of this resolution.

"Note Register" means the registration books on which are maintained the names and addresses of the owners or nominees of the owners of the Notes.

"Note Registrar" means, collectively, the fiscal agencies of the State of Washington located in Seattle, Washington, and New York, New York (or such other registrar as shall be appointed by the District's Treasurer).

"Notes" means the Revenue Bond Anticipation Notes, 1996, authorized by this resolution.

"Revenue Account" means the General Operating Account of the District.



"Revenue of the System" means all earnings, revenue and money received by the District from or on account of the operation of the System, except Assessments, and including the income from investments of money in the Revenue Account and the Note Fund or from any other investment of such earnings and revenue except the income from the investment of Assessments or from investments irrevocably pledged to the payment of other revenue bonds to be refunded pursuant to a plan of refunding adopted by the District. The words "Revenue of the System" shall also include federal, state or municipal reimbursements of operating expenses to the extent such expenses are part of the Cost of Maintenance and Operation of the System.

"System" means the District's combined water supply and distribution system and sanitary sewerage disposal system as the same may be added to, improved, and extended from time to time.

"Treasurer" means the Treasurer of the District.

Section 2. Findings. The District hereby finds and determines that the Notes will be issued for the purpose of refunding the 1995 Notes.

Section 3. Authorization of Notes. For the purposes of repaying the 1995 Notes and paying the costs of issuing the Notes, the District is hereby authorized to issue its water and sewer revenue bond anticipation notes (the "Notes") in the aggregate principal amount of \$7,170,000.

The Notes shall be payable, both principal and interest, out of the proceeds of sale of revenue bonds of the District, out of Assessments, and out of the Net Revenues of the District, as more fully provided herein.

The Notes shall be designated the "Birch Bay Water and Sewer District Revenue Bond Anticipation Notes, 1996," shall be dated their date of delivery, shall be in registered form and shall be in the denomination of \$25,000 or any integral multiple thereof, except Note 1 in the denomination of \$20,000. The Notes shall bear interest from their date at the rate of 4.625% per annum, payable at maturity, and shall mature on August 1, 1997.

The fiscal agencies of the State of Washington in the cities of Seattle, Washington, and New York, New York, or any other authorized registrar hereafter appointed by the Treasurer,

shall act as registrar for the Notes (collectively, the "Note Registrar"). The Note Registrar shall maintain the Note Register. Both the principal and interest on the Notes shall be payable in lawful money of the United States of America. Interest on the Notes shall be paid by check mailed to the registered owners or assigns at the addresses appearing on the Note Register on the 15th day of the month preceding the interest payment date. Principal of the Notes shall be payable upon presentation and surrender of the Notes by the registered owners at either of the fiscal agencies of the State of Washington in the cities of Seattle, Washington, and New York, New York, at the option of such owners.

Upon surrender thereof to the Note Registrar, the Notes are interchangeable for Notes in any authorized denomination of an equal aggregate principal amount and of the same interest rate and maturity. Notes may be transferred only if endorsed in the manner provided thereon and surrendered to the Note Registrar. Such exchange or transfer shall be without cost to the owner or transferee.

The Notes shall be obligations only of the Note Fund and the Revenue Account and shall be payable and secured as provided herein. The Notes are not general obligations of the District.

Section 4. Book Entry, Exchanges and Transfers. The Notes initially shall be held in fully immobilized form by DTC acting as depository pursuant to the terms and conditions set forth in the form of Letter of Representations. To induce DTC to accept the Notes as eligible for deposit at DTC, the District shall execute and deliver the Letter of Representations. The Secretary of the Board of Commissioners of the District is hereby authorized to execute the Letter of Representations with such changes as may hereafter be approved by such Secretary, and such approval shall be conclusively presumed by such Secretary's execution thereof. The Notes shall be issued in denominations equal to the aggregate principal amount of each maturity and initially shall be registered in the name of CEDE & Co., as the nominee of DTC.

Neither the District nor the Note Registrar shall have any responsibility or obligation to DTC participants or the persons for whom they act as nominees with respect to the accuracy of any records maintained by DTC or any DTC participant as to the Notes, the payment by DTC or



any DTC participant of any amount in respect of the principal or redemption price of or interest on the Notes, any notice that is permitted or required to be given to registered owners under this resolution (except any such notices a shall be required to be given by the District to the Note Registrar or to DTC), the selection by DTC or any DTC participant of any person to receive payment in the event of a partial redemption of the Notes or any consent given or other action taken by DTC as the registered owner of the Notes. For so long as any Notes are held in fully immobilized form hereunder, DTC or its successor depository shall be deemed to be the registered owner for all purposes hereunder, and all references in this resolution to registered owners, noteholders or the like shall mean DTC or its nominee and shall not mean the owners of any beneficial interests in the Notes.

A. The Notes shall be registered initially in the name of "CEDE & Co.," as nominee of DTC, with one Note maturing on August 1, 1997 in the denomination of \$7,170,000. Purchases of the Notes may be made through brokers and dealers, who must be or act through participants in DTC, in principal amounts of \$25,000 and integral multiples thereof, except for one Note in the amount of \$20,000. Registered ownership of such immobilized Notes, or any portions thereof, may not thereafter be transferred except (i) to any successor of DTC or its nominee, provided that any such successor shall be qualified under any applicable laws to provide the service proposed to be provided by it; (ii) to any substitute depository appointed by the District pursuant to subsection B below or such substitute depository's successor; or (iii) to any person as provided in subsection D below.

B. 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 District that it is no longer in the best interests of owners of beneficial interests in the Notes to continue the system of book-entry transfers through DTC or its successor (or any substitute depository or its successor), the District may appoint a substitute depository or terminate the use of a depository. Any such substitute depository shall be qualified under any applicable laws to provide the services proposed to be provided by it.

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

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

E. As long as DTC or its successor (or substitute depository or its successor) is not the registered owner of the Notes, any Note may be transferred pursuant to its provisions at the principal office for such purpose of the Note Registrar by surrender of such Note for cancellation, accompanied by a written instrument of transfer, in form satisfactory to the Note Registrar, duly executed by the registered owner in person or by his or her duly authorized attorney, and thereupon the District will issue and the Note Registrar will authenticate and deliver at the principal office of the Note Registrar (or send by registered or first class insured mail to the owner thereof at his expense), in the name of the transferee or transferees, a new Note of the same interest rate, principal amount and maturity, and on which interest accrues from the last interest payment date to which interest has been paid so that there shall result no gain or loss of interest as a result of such transfer, upon payment of any applicable tax or governmental charge. To the extent of denominations authorized in respect of any such Note by the terms of this



resolution, one such Note may be transferred for several such Notes of the same interest rate and maturity, and for a like aggregate principal amount, and several such Notes of the same interest rate and maturity may be transferred for one or several such Notes, respectively, of the same interest rate and maturity and for a like aggregate principal amount.

Upon the request of the District, the Note Registrar shall notify the District of all registrations of Notes and all changes in registrations of Notes. The Note Registrar shall maintain the registration books on behalf of the District and make copies thereof available to the District on request.

In every case of a transfer of any Notes, the surrendered Notes shall be canceled by the Note Registrar and a certificate evidencing such cancellation shall be promptly transmitted by the Note Registrar to the District. As a condition of any such transfer, the District, at its option, may require the payment by the transferor or a sum sufficient to reimburse it for any tax or other governmental charge that may be imposed thereon. All Notes executed, authenticated and delivered in exchange for or upon transfer of Notes so surrendered shall be valid obligations of the District evidencing the same debt as the Notes surrendered, and shall be entitled to all the benefits and protection of this resolution to the same extent as the Notes upon transfer of which they were executed, authenticated and delivered.

Section 5. Payment of Notes and Interest. The principal of, premium, if any, and interest on the Notes shall be paid in lawful money of the United States of America. For so long as all outstanding Notes are registered in the name of CEDE & Co. or its registered assign, payments of principal and interest thereon shall be made as provided in the Letter of Representations. All such payments shall be valid and shall satisfy and discharge the liability of the District upon such Notes to the extent of the amount or amounts so paid.

In the event that the Notes are no longer registered in the name of CEDE & Co. or its registered assign, the principal and premium, if any, on the Notes shall be payable at the principal offices of the Note Registrar in Seattle, Washington or New York, New York. Interest on the Notes will be paid by check or draft of the Note Registrar mailed to the registered owner or

assigns (on the date such interest payment is due) at the addresses appearing on the registration books as of the 15th day of the month prior to such interest payment dates. Wire transfers will be made only if so requested to the Note Registrar in writing and if the registered owner owns at least \$1,000,000 par value of the Notes.

All payments of or on account of interest to any registered owner of any Note (or to his or her assigns), and all payments of or on account of principal to any registered owner of any Note (or to his or her assigns), shall be valid and effectual and shall be a discharge of the District and the Note Registrar in respect of the liability upon the Notes or claims for interest, as the case may be, to the extent of the sum or sums paid.

The District or Note Registrar shall not be required to issue, transfer, or exchange Notes after the 15th day of the month prior to any interest payment date.

Section 6. Prior Redemption.

A. Notes Not Subject to Redemption. The Notes of this issue are not subject to redemption prior to their stated maturity.

B. Reservation of Right to Purchase Notes. The District reserves the right and option to purchase any or all of the Notes in the open market at any price, plus accrued interest to the date of purchase.

Section 7. Payment from Revenue Account. The District hereby obligates and binds itself to set aside and pay into the Revenue Account all Revenue of the System except income from investment of money in the Note Fund. The money in the Revenue Account shall be used only for the following purposes and in the following order of priority:

First, to pay the Cost of Maintenance and Operation of the System;

Second, to make all payments required to be made to pay the interest on the Notes;

Third, to make all payments required to be made to pay the principal of the Notes;

Fourth, to make all payments required to be made into any revenue bond redemption fund, revenue warrant redemption fund, debt service account, reserve account or sinking fund account created to pay and secure the payment of the principal of and interest on any other revenue bonds



or revenue warrants, notes, or other indebtedness of the District having a lien upon the Revenue of the System junior and inferior to the lien thereon for the payment of the principal of and interest on the Notes; and

Fifth, to retire by redemption or purchase in the open market any outstanding revenue bonds or revenue warrants of the District or to make necessary additions, betterments, improvements, extraordinary repairs, extensions and replacements of the System, or any other lawful District purposes.

Section 8. Security for Notes.

A. The District hereby covenants and agrees to issue and sell the Bonds in such principal amount, and at such time or times as are required to pay the principal of and interest on the Notes, as the same shall become due.

B. The District hereby obligates and binds itself to set aside and pay from Assessments and from the Revenue of the System on account in the Revenue Account into the Note Fund those amounts necessary, with other moneys then on hand and available in the Note Fund, to pay the interest on all outstanding Notes and the principal of all outstanding Notes, as such interest and principal respectively become due and payable.

C. Said amounts so pledged to be paid into the Note Fund from the Revenue Account are hereby declared to be a prior lien and charge upon the Revenue of the System superior to all other charges of any kind or nature whatsoever except the Costs of Maintenance and Operation of the System, except that the amounts so pledged are junior to the charges upon such Revenue which may hereafter be made to pay and secure the payment of the principal of and interest on any Bonds.

D. Money in the Note Fund not needed to pay the interest or principal next coming due on any outstanding Notes or to maintain required reserves may be used to redeem and retire such Notes or may be invested as permitted by law.

E. The Board hereby finds that in fixing the amounts to be paid into the Note Fund out of the Revenue of the System, it has exercised due regard for the Cost of Maintenance and

Operation and has not obligated the District to set aside and pay into such funds a greater amount of such Revenue than in its judgment will be available over and above the Cost of Maintenance and Operation.

F. A special fund of the District is hereby created known as the "Birch Bay Water and Sewer District Revenue Bond Anticipation Note Redemption Fund" (herein called the "Note Fund"), which fund shall be drawn upon for the purpose of paying the principal of and interest on the Notes, as the same shall become due.

Section 9. Defeasance. In the event that money and/or "Government Obligations," as such obligations are now or may hereafter be defined in Ch. 39.53 RCW, maturing at such time or times and bearing interest to be earned thereon in amounts sufficient to redeem and retire the Notes or any of them in accordance with their terms are set aside in a special account to effect such redemption or retirement and such money and the principal of and interest on such obligations are irrevocably set aside and pledged for such purpose, then no further payments need be made into the Note Fund for the payment of the principal of and interest on the Notes so provided for and such Notes shall cease to be entitled to any lien, benefit or security of this resolution except the right to receive the funds so set aside and pledged, and such Notes shall be deemed not to be outstanding hereunder.

Section 10. Certain Covenants. The District hereby covenants and agrees with the owner of each of the Notes for as long as any of the same remain outstanding as follows:

A. Assessment Bonds. It is hereby provided that nothing in this resolution shall be construed to prohibit the District from issuing revenue bonds having a lien on the Revenue of the System junior in rank to the lien on such Revenue for the payment of the principal of and interest on the Notes and pledging, as additional security for the payment of such bonds, Assessments levied in any utility local improvement district which may have been created to pay part or all the cost of improvements to the System for which such revenue bonds were specifically issued.

B. Rates and Charges. The District shall establish, maintain and collect lawful rates and charges for the use of the services and facilities of the System, and shall adjust such rates and



charges from time to time so that the Revenue of the System will be sufficient, together with other available funds, (a) to pay all costs of and charges and expenses in connection with the proper operation and maintenance of the System; (b) to pay and secure the principal of and interest on outstanding Notes; (c) to make all other payments which the District is obligated to make pursuant to this resolution; and (d) to pay all taxes, assessments or other governmental charges lawfully imposed on the System or the revenue therefrom or payments in lieu thereof and any and all other amounts which the District may now and hereafter become obligated to pay from the Revenue of the System by law or contract; and

C. Operation and Maintenance Expenses. There shall be maintained in such Fund sufficient money to enable the District to continuously meet the Cost of Maintenance and Operation of the System on a current basis.

D. Enforcement of Delinquent Charges. The District shall promptly take action to enforce the payment of delinquent service charges by such means as are legally available.

E. System Operations. The District will at all times keep and maintain the System in good repair, working order and condition and will at all times operate the System and the business in connection therewith in an efficient manner and at a reasonable cost.

F. Sale of System. The District will not sell or otherwise dispose of the System in its entirety unless, simultaneously with such sale or disposition, provision is made for payment into the Note Fund of cash or Government Obligations (as now or hereafter defined in RCW 39.53) sufficient to pay the principal of and interest on all then outstanding Notes in accordance with the terms thereof, nor will it sell or otherwise dispose of any part of the useful operating properties of the System unless provision is made for payment into the Note Fund of an amount which shall be in at least the same proportion to the net amount of Notes outstanding (defined as the total amount of such Notes less the amount of cash and investments in the Note Fund and accounts therein) that the Net Revenue from the portion of the System sold or disposed of for the preceding fiscal year bears to the Net Revenue of the System for the same period. Such estimate shall be made by a licensed professional engineer experienced in the design, construction and

operation of municipal utilities. Any money so paid into the Note Fund shall be used to retire all or part of such Notes outstanding at the earliest possible date.

G. No Free Service. The District will not furnish any service of the System to any customer whatsoever free of charge.

H. Books and Accounts. The District will keep and maintain proper books and accounts with respect to the operations, income and expenditures of the System that are in accordance with proper and legal accounting procedures. The District shall cause to be prepared a quarterly financial and operating statement no later than the 20th day of the month following each quarterly period for the preceding quarter's business and operation of the System. Said instruments shall be filed quarterly with the Board of Commissioners and shall be sent to the owner of any Note upon request being made therefor. In addition, on or before 90 days after each fiscal year of the operation of the System, the District will prepare or cause to be prepared an operating statement of the System for such preceding fiscal year. Each such statement shall contain a statement in detail of the Revenue of the System, necessary and current expenses of operation and maintenance, repairs, administrative expenses and expenditures for capital purposes of the System for such fiscal year, shall contain a statement as of the end of such year showing the status of all the funds and accounts created by the various resolutions pertaining to the operation of the System and authorizing the issuance of outstanding bonds or notes payable from the Revenue of the System. Copies of such statement shall be placed on file in the office of the Board and shall be open to inspection at any reasonable time by any holder or owner of Notes. All expenses incurred in the maintenance of such books and accounts and the preparation of such statement may be regarded and paid as an expense of operation of the System.

I. Insurance. The District will at all times carry fire and extended coverage and other forms of insurance on such of the buildings, equipment, facilities and properties of the District as under good practice are ordinarily carried on such buildings, equipment, facilities and properties by municipal or privately owned utilities engaged in the operation of sewer and water systems, and will also carry adequate public liability insurance.



J. Covenants Regarding Tax-Exempt Status of the Notes. The District hereby covenants that it will not make any use of the proceeds from the sale of the Notes or any other money or obligation of the District which may be deemed to be proceeds of such Notes pursuant to Section 148(a) of the Internal Revenue Code of 1986, as amended, and the applicable regulations thereunder which will cause the Notes to be "arbitrage bonds" within the meaning of said section and said regulations at the time of such use. The District will comply with the applicable requirements of Section 148(a) of the Internal Revenue Code of 1986, as amended, and the applicable regulations thereunder throughout the term of the Notes. The District covenants that it will not act or fail to act in a manner which will cause the Notes to be considered obligations not described in Section 103(a) of the Internal Revenue Code of 1986, as amended.

The District will take no actions and will make no use of the proceeds of the Notes or any other funds held under this resolution which would cause any Note to be treated as a "private activity bond" as defined in Section 141(b) of the Internal Revenue Code of 1986 then in effect.

Section 11. Future Revenue Obligations. The District will not issue any obligations having a greater or equal priority of lien upon the Revenue of the System to pay and secure the payment of the principal of and interest on such obligations than the priority of lien created on such Revenue to pay and secure the payment of the principal of and interest on the Notes or any outstanding Bonds.

Section 12. Form of Notes and Certificate of Authentication. The Notes shall be in substantially the following form:

No. 1

\$7,170,000

UNITED STATES OF AMERICA

STATE OF WASHINGTON

BIRCH BAY WATER AND SEWER DISTRICT

WHATCOM COUNTY, WASHINGTON

REVENUE BOND ANTICIPATION NOTE, 1996

INTEREST RATE: 4.625%

REGISTERED OWNER: Cede & Co.

MATURITY DATE: August 1, 1997

CUSIP NO.:

PRINCIPAL AMOUNT: Seven Million One Hundred and Seventy Thousand Dollars

Birch Bay Water and Sewer District, Whatcom County, Washington, a municipal corporation organized and existing under and by virtue of the laws of the State of Washington (the "District"), hereby acknowledges itself to owe and for value received promises to pay to the Registered Owner identified above or registered assigns, solely from the sources herein referred to, the Principal Amount set forth above on the Maturity Date set forth above, with interest thereon from the date hereof at the rate per annum set forth above until such Principal Amount is paid or payment has been duly provided for, payable on August 1, 1997.

Both principal of and interest on this note are payable in lawful money of the United States of America. Principal shall be paid to the Registered Owner or assigns upon presentation and surrender of this note at the principal office of the fiscal agencies of the State of Washington in the cities of Seattle, Washington and New York, New York (collectively the "Note Registrar"). Interest shall be paid by mailing a check or draft to the Registered Owner or assigns at the address shown on the books of the Note Registrar on the 15th day of the month prior to the interest payment date.

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



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

IN WITNESS WHEREOF, the District has caused this note to be signed with the manual signature of the President of its Board of Commissioners, to be attested by the manual signature of the Secretary of its Board of Commissioners, and the corporate seal of the District to be impressed or imprinted hereon, all as of this \_\_\_\_ day of November, 1996.

BIRCH BAY WATER AND SEWER DISTRICT,  
WHATCOM COUNTY, WASHINGTON

By \_\_\_\_\_  
President, Board of Commissioners

(SEAL)

ATTEST:

\_\_\_\_\_  
Secretary, Board of Commissioners

#### CERTIFICATE OF AUTHENTICATION

Date of Authentication: \_\_\_\_\_

This note is one of the Notes described in the within-mentioned Note Resolution and is one of the Revenue Bond Anticipation Notes, 1996, of the Birch Bay Water and Sewer District, Whatcom County, Washington, dated November \_\_, 1996.

WASHINGTON STATE FISCAL  
AGENCY, Note Registrar

By \_\_\_\_\_  
Authorized Officer

#### ADDITIONAL PROVISIONS

This note is one of a duly authorized series of notes of like date and tenor, except as to number, in the aggregate principal amount of \$7,170,000. This issue of notes is authorized by Resolution No. \_\_\_\_ (the "Note Resolution"), for the purpose of providing money to repay outstanding bond anticipation notes.

This note and the notes of this issue are payable solely from the special fund of the District known as the "Birch Bay Water and Sewer District Revenue Bond Anticipation Note Fund" (the "Note Fund") created pursuant to the Note Resolution. The District has irrevocably obligated and bound itself to pay into the Note Fund out of Revenue of the System (as defined in the Note Resolution), from the proceeds of sale of its revenue bonds, or from such other money as may be provided therefor in the Note Resolution certain amounts necessary to pay and secure the payment of the principal and interest on such Notes.

The notes of this issue are not general obligations of the District.

The District hereby covenants and agrees with the owner of this note that it will keep and perform all the covenants of the note and of the Note Resolution to be by it kept and performed, and reference is hereby made to the Note Resolution for a complete statement of such covenants and for definitions of other defined terms used herein.

The pledge of Revenue of the System and other obligations of the District under the Note Resolution may be discharged at or prior to the maturity or redemption of the notes of this issue upon the making of provision for the payment thereof on the terms and conditions set forth in the Note Resolution.

The notes of this issue are not subject to redemption prior to their stated maturity.

This note is interchangeable for notes of any authorized denomination of equal aggregate principal amount and of the same interest rate and maturity, upon presentation and surrender to the Note Registrar. Notes may be transferred only if endorsed in the manner provided hereon. Such exchanges or transfer shall be without cost to the owner or transferee hereof.

The District has designated the notes of this issue as "qualified tax-exempt obligations" pursuant to Section 265(b) of the federal Internal Revenue Code of 1986.

The capitalized terms used herein and not defined herein have the meanings set forth in the Note Resolution. Reference to the Note Resolution and any and all modifications and amendments thereof is made for a description of the nature and extent of the security for the notes of this issue, the funds or revenues pledged, and the terms and conditions upon which such notes are issued.



[FORM OF ASSIGNMENT]

ASSIGNMENT

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

PLEASE INSERT SOCIAL SECURITY OR  
TAXPAYER IDENTIFICATION NUMBER OF TRANSFEREE

\_\_\_\_\_  
(Please print or typewrite name and address, including ZIP code, of Transferee)  
the within note and does hereby irrevocably constitute and appoint \_\_\_\_\_  
\_\_\_\_\_, or its successor, attorney-in-fact to transfer said  
note on the registration books of the Note Registrar with full power of substitution in the  
premises.

DATED: \_\_\_\_\_

SIGNATURE GUARANTEED:

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

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

Section 13. Execution of Notes. The Notes shall be signed on behalf of the District  
with the manual or facsimile signatures of the President and Secretary of its Board of  
Commissioners, and shall have the seal of the District impressed or imprinted thereon.

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

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

In case either of the officers who shall have executed the Notes shall cease to be such officer or officers of the District before the Notes so signed shall have been authenticated or delivered by the Note Registrar, or issued by the District, such Notes 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. Any Note may also be signed and attested on behalf of the District by such persons as at the actual date of execution of such Note shall be the proper officers of the District although at the original date of such Note any such person shall not have been such officer of the District.

The appropriate District officials, agents and representatives are hereby authorized and directed to do everything necessary for the prompt issuance, execution and delivery of the Notes and for the proper use and application of the proceeds of the sale thereof.

Section 14. Notes Designated as Qualified Tax-Exempt Obligations. The District hereby designates the Notes as "qualified tax-exempt obligations" under Section 265(b) of the federal Internal Revenue Code of 1986. The District does not expect to issue tax-exempt obligations in an aggregate principal amount in excess of \$10,000,000 during calendar year 1996.

Section 15. Note Registrar. The Note Registrar shall keep, or cause to be kept, at its principal corporate trust office, sufficient books for the registration and transfer of the Notes which shall at all times be open to inspection by the District. The Note Registrar is authorized, on behalf of the District, to authenticate and deliver the Notes transferred or exchanged in accordance with the provisions of such Notes and this resolution and to carry out all of the Note Registrar's powers and duties under this resolution.

The Note Registrar shall be responsible for its representations contained in the Certificate of Authentication on the Notes. The Note Registrar may become the owner of Notes with the same rights it would have if it were not the Note Registrar, and to the extent permitted by law,



may act as depositary for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Note owners.

Section 16. Lost or Destroyed Notes. In case any Note secured by this resolution shall be lost, stolen or destroyed, the District may execute and deliver a new note or notes of the same aggregate principal amount, bearing interest at the same rate and issued in any authorized denomination, to the owner thereof upon the owner paying the expenses and charges of the District in connection therewith, upon the owner filing with the District evidence satisfactory to it that such Note was actually lost, stolen or destroyed, and upon the owner furnishing the District with indemnity satisfactory to the District.

Section 17. Sale of Notes; Official Statement. The sale of the Notes to Seattle-Northwest Securities Corporation, Seattle, Washington, pursuant to the purchase contract dated October 24, 1996, at such interest rates, with such maturities, at such price and upon such terms and conditions as set forth in said proposal and in this resolution, is hereby ratified, approved and confirmed. Said purchase contract is attached hereto and incorporated herein by reference.

The form and content of the Preliminary Official Statement in connection with the Notes is hereby approved and the use of the Preliminary Official Statement in connection with the sale of the Notes is approved. The District deems the Preliminary Official Statement as final as of its date pursuant to Securities and Exchange Commission Rule 15c2-12 except for the omission of information dependent upon the sale of the Notes, such as price, interest rates, discount, ratings, delivery date and other terms of the Notes dependent on the foregoing.

Section 18. Disposition of Proceeds; General Authorization. The proceeds of the Notes shall be deposited as follows: (1) the amount necessary to repay the 1996 Notes on December 1, 1996 shall be deposited into the Birch Bay Water and Sewer District Revenue Bond Anticipation Note Redemption Fund created by Resolution No. 553; and (2) the remaining proceeds shall be deposited into the Revenue Account and used to pay costs of issuing the Notes.

The President and Secretary of the Board of Commissioners of the District and each of the other appropriate officers, agents, employees and representatives of the District are each hereby

The President and Secretary of the Board of Commissioners of the District and each of the other appropriate officers, agents, employees and representatives of the District are each hereby authorized and directed to take such steps, to do such other acts and things, and to execute such letters, certificates, agreements, papers, financing statements, assignments or instruments as in their judgment may be necessary, appropriate or desirable in order to carry out the terms and provisions of, and complete the transactions contemplated by, this resolution.

Section 19. Ongoing Disclosure. In accordance with Section (b)(5) of Securities and Exchange Commission Rule 15c2-12 under the Securities and Exchange Act of 1934, as the same may be amended from time to time (the "Rule"), the District will provide the following information.

Financial Statements. The District will provide to each person upon request or to the State Information Depository ("SID"), if any, a copy of its latest publicly available annual financial statements prepaid in accordance with the Budget Accounting and Reporting System prescribed by the Washington State Auditor pursuant to RCW 43.09.20 (or any successor statute).

Material Events. The District will provide or cause to be provided, in a timely manner, to the SID, if any, and to each Nationally Recognized Municipal Securities Information Repository ("NRMSIR") or to the Municipal Securities Rulemaking Board ("MSRB") notice of the occurrence of any of the following events with respect to the Notes, if material: (i) principal and interest payment delinquencies; (ii) non-payment related defaults; (iii) unscheduled draws on debt service reserves, if any, for the Notes reflecting financial difficulties; (iv) unscheduled draws on credit enhancements, if any, for the Notes reflecting financial difficulties; (v) substitution of credit or liquidity providers, if any, or their failure to perform; (vi) adverse tax opinions or events affecting the tax-exempt status of the Notes; (vii) modifications to the rights of Note owners; (viii) optional redemption of Notes prior to their maturity; (ix) defeasance of the Notes; (x) release, substitution or sale of property, if any, security repayment of the Notes; and (xi) rating changes for the Notes.



There are no credit enhancements to the Notes, no debt service reserves, and no property secures repayment of the Notes.

Termination/Modification. The District's obligations to provide notices of material events shall terminate upon the legal defeasance or payment in full of all of the Notes.

Note Owner's Remedies. A Note owner's or beneficial owner's right to enforce the provisions of the District's undertaking described in this section shall be limited to a right to obtain specific enforcement of the District's obligations, and any failure by the District to comply with the provisions of this undertaking shall not be an event of default with respect to the Notes.

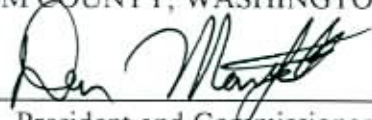
Section 20. Prior Acts. All acts taken pursuant to the authority of this resolution but prior to its effective date are hereby ratified and confirmed.


Section 21. Severability. If any one or more of the covenants or agreements provided in this resolution to be performed on the part of the District shall be declared by any court of competent jurisdiction to be contrary to law, then such covenant or covenants, agreement or agreements, shall be null and void and shall be separable from the remaining covenants and agreements in this resolution and shall in no way affect the validity of the other provisions of this resolution or of the Notes.

Section 22.   Effective Date.   This resolution shall take effect immediately upon its adoption.

ADOPTED by the Board of Commissioners of Birch Bay Water and Sewer District, Whatcom County, Washington, at a regular meeting thereof held this 24th day of October, 1996.

BIRCH BAY WATER AND SEWER DISTRICT,  
WHATCOM COUNTY, WASHINGTON

By   
President and Commissioner

By   
Commissioner

By   
Commissioner

ATTEST:

  
Secretary, Board of Commissioners



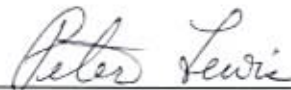
CERTIFICATE OF SECRETARY

I HEREBY CERTIFY that I am the duly chosen, qualified and acting Secretary of the Board of Commissioners (the "Board") of Birch Bay Water and Sewer District, Whatcom County, Washington (the "District"), and keeper of the records of the District; and I HEREBY FURTHER CERTIFY:

1. That the attached resolution is a true and correct copy of Resolution No. 574 of the District (the "Resolution") as finally adopted at a meeting of the Board held on the 24th day of October, 1996 and duly recorded in my office.

2. That said meeting was duly convened and held in all respects in accordance with law, and to the extent required by law, due and proper notice of such meeting was given; that a quorum was present throughout the meeting and a legally sufficient number of members of the Board voted in the proper manner for the adoption of the Resolution; that all other requirements and proceedings incident to the proper adoption of the 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 and affixed the official seal of the District this 24th day of October, 1996.



Secretary, Board of Commissioners  
Birch Bay Water and Sewer District  
Whatcom County, Washington

(S E A L)