

COPY

BIRCH BAY WATER AND SEWER DISTRICT
WHATCOM COUNTY, WASHINGTON
WATER AND SEWER REVENUE BONDS, 1997
\$8,415,000

RESOLUTION NO. 583

A RESOLUTION of the Board of Commissioners of Birch Bay Water and Sewer District, Whatcom County, Washington, providing for the issuance and sale of water and sewer revenue bonds in the principal sum of \$8,415,000 for the purpose of repaying water and sewer revenue bond anticipation notes; providing the date, form, terms and maturities of the bonds to be issued; providing certain covenants for the payment of principal and interest on the bonds; providing that additional water and sewer revenue bonds may be issued on a parity with the bonds; and approving the sale of the bonds herein authorized.

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Exhibit A - Qualified Investments

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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 ("1996 Notes") in order to finance water and sewer improvements in the District; and

WHEREAS, it is in the best interest of the District in order to repay the 1996 Notes, that it issue water and sewer revenue bonds and that such bonds 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.

"Average Annual Debt Service" means the average amount of annual Debt Service which will become due in any future calendar year on the Parity Bonds then outstanding.

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

"Bond Fund" means the special fund of the District designated as the "Water and Sewer Revenue Bond Redemption Fund" authorized to be created in the office of the Treasurer by Section 8 of this resolution.

"Bond Insurer" means Financial Security Assurance Inc., a New York stock insurance company, or any successor thereto or assignee thereof.

"Bond Insurance Policy" means the insurance policy issued by the Bond Insurer guaranteeing the scheduled payment of principal of and interest on the Bonds maturing in the years 1999 through 2000 and 2003 through 2012, inclusive.

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

"Bond Registrar" means, 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).

"Bonds" means the "Birch Bay Water and Sewer District, Whatcom County, Washington, Water and Sewer Revenue Bonds, 1997" issued pursuant to and for the purposes provided in this resolution.

"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.

"Coverage Requirement" means (a) 125% of the amounts required in such fiscal year to be paid as scheduled debt service (principal, interest, and Sinking Fund Requirement) on the portion of Parity Bonds minus the amount of Assessments collected in such year and (b) 100% of the amount of Assessments collected in such year.

"Debt Service" for any period means the amount equal to:

- (A) the interest accruing during such period on all outstanding Parity Bonds, excluding interest to be paid from the proceeds of sale of Parity Bonds; and
- (B) the principal of all outstanding Serial Bonds due in such period; and
- (C) the Sinking Fund Requirement, if any, for such period.

"Debt Service Account" means the special account of that name within the Bond Fund created by Section 8 of this resolution for the purpose of paying the principal of and interest on the Bonds and any Future Parity Bonds.

"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.

"Future Parity Bonds" means all water and sewer revenue bonds of the District hereafter issued, the payment of which constitutes a lien and charge upon the Revenue of the System required to be paid into the Bond Fund which is equal in rank to the lien and charge upon the Revenue of the System for the payments required to pay and secure the payment of the Bonds.

"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 Representations" means the form of letter to DTC, which is now on file with the District.

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

"1996 Notes" means the Revenue Bond Anticipation Notes, 1996.

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

"Parity Bonds" means the Bonds and any Future Parity Bonds.

"Professional Utility Consultant" means an independent firm or person selected by the District and having experience with water and sewer systems.

"Qualified Letter of Credit" means any irrevocable letter of credit issued by a financial institution for the account of the District on behalf of the owners of any Parity Bonds, which institution maintains an office, agency or branch in the United States and as of the time of issuance of such letter of credit, is currently rated in one of the two highest rating category by Moody's Investors Service and Standard & Poor's Ratings Services, a Division of the McGraw-Hill Companies, or their comparably recognized business successors.

"Qualified Insurance" means any noncancelable municipal bond insurance policy or surety bond issued by any insurance company licensed to conduct an insurance business in any state of the United States (or by a service corporation acting on behalf of one or more such insurance companies) which insurance company or companies, as of the time of issuance of such policy or surety bond, are currently rated in one of the two highest rating category by Moody's Investors Service and Standard & Poor's Ratings Services, a Division of the McGraw-Hill Companies, or their comparably recognized business successors.

"Reserve Account" means the special account of the District designated as the "Reserve Account" to be created in the office of the Treasurer as an account within the Bond Fund, for the purpose of securing the payment of principal of and interest on the Parity Bonds, pursuant to Section 8 of this resolution.

"Reserve Account Requirement" means, with respect to the Bonds and Future Parity Bonds, an amount equal to the least of (a) 125% of Average Annual Debt Service for each such bond issue then outstanding, (b) 10% of the net proceeds of such bonds, or (c) maximum annual Debt Service, all as calculated separately as of the date of issuance of each such bond issue.

"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, including Assessments, connection charges and the income from investments of money in the Revenue Account and the Bond 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.

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

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

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

"Sinking Fund Requirement" means, for any period, the amount required on account of Term Bonds to be deposited into the Debt Service Account in such period as established by the resolution of the District authorizing the issuance of such Term Bonds.

"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.

"Term Bonds" means Parity Bonds of any principal maturity which are subject to mandatory redemption on predetermined dates or for which mandatory sinking fund payments are required.

"Treasurer" means the Treasurer of the District.

Section 2. Findings. The District hereby finds and determines that the Bonds will be issued for the purpose of refunding the 1996 Notes, funding the Reserve Account and paying costs of issuance of the Bonds.

Section 3. Authorization of Bonds. For the purpose of providing the funds necessary to refund the 1996 Notes, fund the Reserve Account and pay costs of issuance, the District shall issue and sell its water and sewer revenue bonds (the "Bonds") in the principal amount of \$8,415,000.

Section 4. Description of Bonds. The Bonds shall be designated "Birch Bay Water and Water and Sewer District, Whatcom County, Washington, Water and Sewer Revenue Bonds,

1997," shall be dated as of July 15, 1997, shall be fully registered as to both principal and interest, and shall be in the denomination of \$5,000 each, or any integral multiple thereof, provided no Bond shall represent more than one maturity, shall be numbered separately in such manner and with any additional designation as the Bond Registrar deems necessary for purposes of identification. The Bonds shall bear interest payable on March 1, 1998, and semiannually thereafter on the first day of each succeeding September and March at the rates set forth below and shall mature as Serial Bonds on September 1 in the years and amounts as follows:

<u>Maturity Dates (September 1)</u>	<u>Principal Amounts</u>	<u>Interest Rates</u>
1998	\$375,000	4.00%
1999	425,000	4.20
2000	440,000	4.25
2001	460,000	4.50
2002	480,000	4.60
2003	505,000	4.50
2004	525,000	4.55
2005	550,000	4.60
2006	575,000	4.65
2007	605,000	4.70
2008	630,000	4.75
2009	660,000	4.85
2010	695,000	5.00
2011	725,000	5.10
2012	765,000	5.15

Section 5. Registration, Book Entry, Payment and Transfer. The District hereby adopts the system of registration for the Bonds approved by the State Finance Committee, and the fiscal agencies of the State of Washington in the cities of Seattle, Washington, and New York, New York, shall act as authenticating trustee, transfer agent, paying agent and registrar for the Bonds (collectively, the "Bond Registrar"). The Bond Registrar shall keep, or cause to be kept, at its principal corporate trust office, sufficient records for the registration and transfer of the Bonds which shall at all times be open to inspection by the District. The Bond Registrar is authorized, on behalf of the District, to authenticate and deliver Bonds transferred or exchanged in accordance with the provisions of such Bonds and this resolution and to carry out all of the Bond

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

For so long as the Bonds are held in fully-immobilized form, payment of principal and interest on the Bonds shall be as provided in the Letter of Representations. If Bonds are no longer in immobilized form, interest on the Bonds shall be paid by checks or drafts mailed, or by wire transfer, to owners of Bonds at the addresses for such owners appearing on the Bond Register on the 15th day of the calendar month preceding the interest payment date. Principal of the Bonds shall be payable at maturity or on such dates as may be fixed for prior redemption upon presentation and surrender of the Bonds by the owners at either principal office of the Bond Registrar in Seattle, Washington, or New York, New York, at the option of such owners. Interest may be paid by wire transfer to a registered owner of at least \$100,000 in principal amount of the Bonds, upon written request to the Bond Registrar at least 15 days preceding the interest payment date.

The Bonds initially shall be held in fully immobilized form by DTC acting as depository pursuant to the terms and conditions set forth in the form of Letter of Representations. To induce DTC to accept the Bonds as eligible for deposit at DTC, the District has executed and delivered the Letter of Representations. The Bonds 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 Bond 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 Bonds, the payment by DTC or any DTC participant of any amount in respect of the principal or redemption price of or interest

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

(i) The Bonds shall be registered initially in the name of "CEDE & Co.," as nominee of DTC. Purchases of the Bonds may be made through brokers and dealers, who must be or act through participants in DTC, in principal amounts of \$5,000 and integral multiples thereof. Registered ownership of such immobilized Bonds, or any portions thereof, may not thereafter be transferred except (a) to any successor of DTC or its nominee, provided that any such successor shall be qualified under any applicable laws to provide the service proposed to be provided by it; (b) to any substitute depository appointed by the District pursuant to subsection (ii) below or such substitute depository's successor; or (c) to any person as provided in subsection (iv) below.

(ii) Upon the resignation of DTC or its successor (or any substitute depository or its successor) from its functions as depository, or a determination by the District that it is no longer in the best interests of owners of beneficial interests in the Bonds 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.

(iii) In the case of any transfer pursuant to clause (a) or (b) of subsection (i) above, the Bond Registrar shall, upon receipt of all outstanding Bonds, together with a written

request on behalf of the District, issue a single new Bond for each maturity of such Bonds then outstanding, registered in the name of such successor or such substitute depository, or their nominees, as the case may be, all as specified in such written request of the District.

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

(v) As long as DTC or its successor (or substitute depository or its successor) is not the registered owner of the Bonds, any Bond may be transferred pursuant to its provisions at the principal office for such purpose of the Bond Registrar by surrender of such Bond for cancellation, accompanied by a written instrument of transfer, in form satisfactory to the Bond 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 Bond Registrar will authenticate and deliver at the principal office of the Bond 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 Bond 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 Bond by the terms of this resolution, one such Bond may be transferred for several such Bonds of the same interest rate and maturity, and for a like aggregate principal amount, and several such Bonds of the same interest

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

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

Section 6. Optional Redemption; Purchases.

A. Optional Redemption. The District reserves the right to redeem the outstanding Bonds maturing on and after September 1, 2008, in whole or in part (maturities to be selected by the District and by lot within a maturity in such manner as the Bond Registrar or DTC shall determine) at any time on or after September 1, 2007, at par, plus accrued interest to the date of redemption.

B. Partial Redemption. Portions of the principal amount of any Bond, in increments of \$5,000 or any integral multiple of \$5,000, may be redeemed. If less than all of the principal amount of any Bond is redeemed, upon surrender of such Bond at the principal office of the Bond Registrar there shall be issued to the registered owner, without charge therefor, for the then unredeemed balance of the principal amount thereof, a new Bond or Bonds, at the option of the

registered owner, of like maturity and interest rate in any denomination authorized by this resolution.

C. Notice of Redemption. Official notice of any such redemption shall be given by the Bond Registrar on behalf of the District by mailing a copy of an official redemption notice by first class mail, postage prepaid, at least 30 days and not more than 60 days prior to the date fixed for redemption to the registered owner of the Bond or Bonds to be redeemed at the address shown on the Bond Register or at such other address as is furnished in writing by such registered owner to the Bond Registrar.

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

On or prior to any redemption date, the District shall deposit with the Bond Registrar an amount of money sufficient to pay the redemption price of all the Bonds or portions of Bonds which are to be redeemed on that date. The requirements of this section shall be deemed to be complied with when notice is mailed as provided, whether or not it is actually received by the owner of any Bond.

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

redemption date shall be payable as herein provided for payment of interest. Bonds which have been redeemed shall be cancelled and destroyed by the Bond Registrar and shall not be reissued.

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

Notice of redemption shall be sent at least 30 days before the redemption date to the SID, if any, and to each NRMSIR or to the MSRB in accordance with Section 21 and may be sent to all registered securities depositories then in the business of holding substantial amounts of obligations of types comprising the Bonds.

D. Purchase of Bonds In Open Market. The District reserves the right to purchase any Bonds in the open market.

Section 7. Payment from Revenue Account; Rate Stabilization 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 Bond Fund; provided, that Assessments shall be deposited directly into the Bond 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 pay the Water and Sewer Revenue Bond, 1976;

Third, to make all payments required to be made to pay the interest on the Parity Bonds;

Fourth, to make all payments required to be made to pay the principal of and Sinking Fund Requirements for the Parity Bonds;

Fifth, 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 Parity Bonds, including the District's Public Trust Fund loans; and

Sixth, 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.

The District may create a Rate Stabilization Account to even out fluctuations in Net Revenues and help to alleviate the need for short-term rate adjustments. The District may make payments into the Rate Stabilization Account from the Revenue Account at any time. Money in the Rate Stabilization Account may be withdrawn at any time and used for the purposes for which the Revenue of the System may be used. Amounts withdrawn from the Rate Stabilization Account shall increase Revenue of the System for the period for which they are withdrawn, and amounts deposited in the Rate Stabilization Account shall reduce Revenue of the System for the period for which they are deposited. Credits to or from the Rate Stabilization Account that occur within 90 days after the end of a fiscal year may be treated as occurring within such fiscal year. Earnings on the Rate Stabilization Account shall be credited to the Revenue Account.

Section 8. Payments Into Bond Fund. A special fund of the District to be known as the "Water and Sewer Revenue Bond Redemption Fund" (the "Bond Fund") is hereby authorized to be created in the office of the Treasurer for the purpose of paying and securing the payment of the Parity Bonds. The Bond Fund shall contain two accounts: the "Debt Service Account" and the "Reserve Account." At the option of the District, separate accounts may be created in the Bond Fund, or within the Bond Fund accounts, for the purpose of paying or securing the payment of principal and interest on the Parity Bonds.

A. Debt Service Account. A special account is hereby authorized to be created within the Bond Fund to be known as the "Debt Service Account" for the purpose of paying the principal of and interest on the Parity Bonds.

The District hereby obligates and binds itself to set aside and pay into the Debt Service Account in the Bond Fund out of the Revenue of the System and money in the Revenue Account those amounts necessary, together with other money on hand and available therefor in the Bond Fund, to pay the principal of and interest on the Bonds as the same shall become due and payable.

B. Reserve Account. The District shall deposit into the Reserve Account out of the proceeds of the Bonds the Reserve Account Requirement for the Bonds. The District further agrees that it will maintain at all times, except for withdrawals as authorized herein, a balance therein at least equal to the Reserve Account Requirement for all Parity Bonds outstanding.

The District covenants that in the event it issues any Future Parity Bonds it will provide in each resolution authorizing the issuance of the same that approximately equal annual payments will be made into the Reserve Account out of the proceeds of such Future Parity Bonds or out of any other funds on hand and legally available for such purpose so that within the five-year period from the date of the issuance of such Future Parity Bonds, the total amount of such payments, with the amount already in the Reserve Account, will be at least equal to the Reserve Account Requirement. The District may substitute Qualified Insurance or a Qualified Letter of Credit for amounts required to be deposited into the Reserve Account. Such Qualified Letter of Credit or Qualified Insurance shall not be cancelable on less than five years notice. In the event of any cancellation, the Reserve Account shall be funded in accordance with the provisions of this section providing for payment in the event of a deficiency therein, as if the Parity Bonds that remain outstanding had been issued on the date of such notice of cancellation.

The District further covenants that after the required deposit has been made into the Reserve Account, it will at all times maintain therein an amount at least equal to the Reserve Account Requirement, as redetermined in each calendar year with respect to the bonds secured by such Reserve Account.

Whenever there is on hand in the Reserve Account and Debt Service Account a sum sufficient to pay the entire principal amount of and accrued interest on the Parity Bonds, the

money in such Accounts may be used to pay or defease part or all of the principal of all outstanding Parity Bonds and no further payments need be made into the Bond Fund.

In the event there is a deficiency in the Debt Service Account to meet maturing installments of either interest on or principal of and interest on the outstanding Parity Bonds payable out of such Account, such deficiency shall be made up from the Reserve Account by the withdrawal of money therefrom and by the sale or redemption of obligations held in the Reserve Account, if necessary, in such amounts as will provide cash in the Reserve Account sufficient to make up any such deficiency, and if a deficiency still exists immediately prior to an interest payment date and after the withdrawal of cash, the District shall then draw from any Qualified Letter of Credit or Qualified Insurance to make up the deficiency. Such draw shall be made at such times and under such conditions as the agreement for such Qualified Letter of Credit or such Qualified Insurance shall provide. If more than one Qualified Letter of Credit or Qualified Insurance is available, draws shall be made ratably to make up the deficiency. Any deficiency created in the Reserve Account by reason of any such withdrawal shall then be made up from money in the Revenue Account first available after making the payments required to be made under paragraphs "First" through "Fifth" of Section 7 of this resolution.

C. Priority of Lien of Payments into Bond Fund. The amounts so pledged to be paid into the Bond Fund from the Revenue of the System are hereby declared to be a lien and charge upon the Revenue of the System junior in rank to the lien thereon for the Cost of Maintenance and Operation, equal in rank to the lien thereon of any Future Parity Bonds, and prior and superior to all other charges of any kind or nature whatsoever against such Revenue of the System.

D. Application and Investment of Moneys in Bond Fund. Money in the Bond Fund may be invested in the qualified investments attached as Exhibit A to this resolution and incorporated herein by reference. Investments in the Bond Fund shall mature prior to the date on which such money shall be needed for required interest or principal payments. Investments in the Reserve Account shall mature prior to the final payment date on the Parity Bonds. All interest

earned and income derived by virtue of such investments shall remain in the Bond Fund and be used to meet the required deposits therein.

E. Sufficiency of Revenues. The Board hereby finds that in fixing the amounts to be paid into the Bond Fund and the Reserve Account out of the Revenue of the System, it has exercised due regard for the Cost of Maintenance and Operation and the amounts previously pledged for the payment of the District's outstanding indebtedness of the System, and has not obligated the District to set aside and pay into such Fund a greater amount of such Revenue than in its judgment will be available over and above the amounts necessary to pay the Cost of Maintenance and Operation and the amounts previously pledged for the payment of the outstanding indebtedness of the System.

Section 9. Application of Bond Proceeds. The Bond proceeds shall be applied as follows:

A. Proceeds of the sale of the Bonds representing accrued interest on the Bonds shall be deposited in the Debt Service Account and applied to pay interest on the Bonds first coming due.

B. The Reserve Account Requirement shall be deposited in the Reserve Account.

C. The amount necessary to repay the 1996 Notes shall be deposited into the Revenue Bond Anticipation Note Redemption Fund.

D. The balance of the proceeds shall be deposited in the Revenue Account or a construction account and applied to pay costs of issuance of the Bonds and finance other capital improvements to the System.

Section 10. Defeasance. In the event that money and/or "Government Obligations," as such obligations are now or may hereafter be defined in RCW Ch. 39.53, or its successor statute, if any, maturing at such time or times and bearing interest to be earned thereon in amounts sufficient to redeem and retire all or a portion of the Bonds in accordance with their terms are set aside in a special account to effect such redemption or retirement and such money and the principal of and interest on such obligations are irrevocably set aside and pledged for such

purpose, then no further payments need be made into the Bond Fund for the payment of the principal of and interest on the Bonds to be retired, and such Bonds shall cease to be entitled to any lien, benefit or security of this resolution except that right to receive the funds so set aside and pledged, and such Bonds shall be deemed not to be outstanding hereunder.

Section 11. Bond Covenants. The District hereby covenants and agrees with the owner of each of the Bonds for as long as any of the same remain outstanding as follows:

A. Collection and Application of Assessments. The District shall promptly collect all Assessments and pay them into the Bond Fund. Assessments levied in ULIDs Nos. 8, 11, 12, 13, 14 and 15 shall be deposited into the Bond Fund. The Assessments may be used to pay the principal of and interest on any or all Parity Bonds without any of the same being particularly allocated to the payment of the principal of and interest on any particular series or issue of Parity Bonds payable out of the Bond Fund.

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

C. Sufficiency of Rates. The District shall fix, maintain and collect rates and charges for the use of the services and facilities and all commodities sold, furnished or supplied by the System which shall be fair and reasonable. The District shall adjust such rates and charges from time to time so that the Revenue of the System derived therefrom, together with other revenues of the System, and income derived from investments of moneys on hand in the Bond Fund and Revenue Account, but excluding amounts received or to be received from another public corporation resulting from the takeover of all or any portion of the System by such public corporation, will at all times be sufficient (1) to pay all Cost of Maintenance and Operation; (2) to

pay the principal of and interest on all Parity Bonds, as and when the same shall become due and payable; (3) to pay all taxes, assessments or other governmental charges lawfully imposed on the System or the Revenue of the System or payments in lieu thereof and any and all other amounts which the District may now or hereafter become obligated to pay from the Revenue of the System by law or contract; and (4) to meet the Coverage Requirement after providing for all Cost of Maintenance and Operations, but before depreciation.

D. Books and Accounts. The District shall maintain complete books and records relating to the operation of the System and its financial affairs, and will cause to be prepared an annual financial and operating statement, which statement shall be sent to the registered owner of any Parity Bond upon request being made in writing therefor.

E. Insurance. The District will keep the System insured, and will carry such other insurance, with responsible insurers, with policies payable to the District, against risks, accidents or casualties, at least to the extent that insurance is usually carried by municipal corporations operating like properties; provided, however, that the District may, if deemed advisable by the Board, institute or continue a self-insurance program with respect to any or all of the aforementioned risks. In the event of any loss or damage, the District will promptly deposit the insurance proceeds into a construction fund for the System, and use such funds to repair or replace the damaged portion of the insured property and apply the proceeds of any insurance policy or self-insurance funding for that purpose; or in the event the District should determine not to repair or reconstruct such damaged portion of the properties of the District, the proceeds of such insurance or self-insurance funding shall be transferred to the Reserve Account to the extent that such transfer shall be necessary to make up any deficiency in the Reserve Account and the balance, if any, shall at the option of the District, be used for repairs, renewals, replacements, or additions to or extension of the System or be used in the retirement of Parity Bonds prior to maturity, either by purchase at prices not to exceed the next applicable redemption price or by call for redemption. The premiums paid for all such insurance shall be regarded and paid as a Cost of Maintenance and Operation of the System.

F. No Free Service. So long as any Parity Bonds are outstanding, the District shall not furnish or supply or permit the furnishing or supplying of service free of charge to any person, firm or corporation, public or private (other than the District), and the District will promptly enforce the payment of any and all accounts owing to the District and delinquent, by discontinuing service or by filing suits, actions or proceedings, or by both discontinuance of service and filing suit; provided, that to the extent permitted by law, the District may lend money and may provide commodities, services or facilities free of charge or at a reduced charge in order to carry out a plan of conservation or a plan to assist the poor and inform adopted by the District.

G. Sale of System Assets. The District will not sell or otherwise dispose of the System in its entirety unless simultaneously with such sale or other disposition, provision is made for the payment into the Bond Fund of cash or "Government Obligations" sufficient together with interest to be earned thereon to pay the principal of and interest on the then outstanding Parity Bonds, nor will it sell or otherwise dispose of any part of the useful operating properties of the System unless such facilities are replaced or provision is made for payment into the Bond Fund of the greater of:

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

(2) An amount that will be in the same proportion to the net principal amount of Parity Bonds then outstanding that the book value of the part of the System sold or disposed of bears to the book value of the part of the System sold or disposed of bears to the book value of the entire System immediately prior to such sale or disposition.

(3) An amount that will be in the same proportion to the net principal amount of Parity Bonds then outstanding that the Revenues from the part of the System sold or disposed

of bears to the Revenues of the part of the System from the part sold or disposed of bears to the Revenue of the entire System immediately prior to such sale or disposition.

(4) An amount that will be in the same proportion to the net principal amount of Parity Bonds then outstanding that the customers from the part of the System sold or disposed of bears to the customers from the part of the System sold or disposed of bears to the total number of customers of the entire System immediately prior to such sale or disposition.

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

Notwithstanding any other provision of this subsection, the District may sell or otherwise dispose of any of the works, plant, properties and facilities of the System or any real or personal property comprising a part of the same with a value less than 5% of the net utility plant of the System or which shall have become unserviceable, inadequate, obsolete or unfit to be used in the operation of the System, or no longer necessary, material to or useful in such operation, without making a deposit into the Bond Fund.

Section 12. Tax Covenants. The District covenants that it will not take or permit to be taken on its behalf any action that would adversely affect the exemption from federal income taxation of the interest on the Bonds and will take or require to be taken such acts as may reasonably be within its ability and as may from time to time be required under applicable law to continue the exemption from federal income taxation of the interest on the Bonds. Without limiting the generality of the foregoing, the District covenants that it will not take any action or fail to take any action with respect to the investment of the proceeds of any Bonds or other funds that would result in constituting the Bonds "arbitrage bonds" within the meaning of such term as used in Section 148 of the Internal Revenue Code of 1986, as amended (the "Code").

The District represents 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.

The District further covenants that it will not take any action or permit any action to be taken that would cause the Bonds to constitute "private activity bonds" under Section 141 of the Code. The District hereby designates the Bonds as "qualified tax-exempt obligations" under Section 265(b) of the Code. The District does not expect to issue tax-exempt obligations in an aggregate principal amount in excess of \$10,000,000 during the calendar year 1997.

Section 13. Issuance of Future Parity Bonds. The District covenants with the owners of the Bonds for as long as any of the same remain outstanding as follows:

A. That it will not issue any bonds with a lien on Revenue of the System superior to the lien on such revenues of the Bonds. The District may issue Future Parity Bonds for:

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

Second, the purpose of refunding or purchasing and retiring at or prior to their maturity any outstanding revenue bonds or other obligations payable out of Revenues of the System; and to pledge that payments be made into the Bond Fund for the payment of the principal thereof and interest thereon out of the Revenue Account and the Revenue of the System sufficient to pay the principal of and interest on such Parity Bonds and to maintain the reserves required therefor, which such payments may rank equally with the payments out of such Revenue Account into the Bond Fund and the Reserve Account to pay and secure the payment of the principal of and interest on any Parity Bonds then outstanding, upon compliance with the following conditions:

(1) That at the time of the issuance of such Parity Bonds there is no deficiency in the Bond Fund and the Reserve Account.

(2) If there are Assessments levied in any utility local improvement district in which additions and improvements to and extensions of the System will be constructed from the proceeds of such Parity Bonds, the resolution authorizing such Parity Bonds shall require that such Assessments be paid into the Bond Fund.

(3) If there are Assessments pledged to be paid into a warrant or bond redemption fund for revenue bonds or warrants being refunded by Parity Bonds, the ordinance authorizing such Parity Bonds shall require such Assessments to be used for the refunding or paid into the Bond Fund.

(4) The principal of and interest on the additional or refunding Parity Bonds shall be payable out of the Bond Fund.

Each resolution providing for the issuance of additional or refunding Parity Bonds shall further provide that the District will pay into the Reserve Account, out of the Assessments required to be paid into such account and, if necessary, out of the money in the Revenue Account, the Revenue of the System, and any other moneys legally available therefor, approximately equal annual amounts which, together with the balance then in such Reserve Account and together with any payments required to be made into the Reserve Account by this resolution or any Future Parity Bond resolution and yet unpaid, will equal within five years after the date of issuance of such Future Parity Bonds, the Reserve Account Requirement, taking into consideration in the calculation thereof such additional or refunding Parity Bonds, but excluding any bonds whose redemption and/or retirement have been fully provided for pursuant to Section 10 hereof, or any like provision of any resolution authorizing the issuance of Future Parity Bonds.

(5) Prior to the delivery of any Future Parity Bonds, the District shall have on file a certificate of a Professional Utility Consultant showing that the Net Revenue determined and adjusted as hereafter provided for each calendar or fiscal year after the issuance of such Future Parity Bonds (the "Adjusted Net Revenue" as defined below) will equal at least 1.25 times the annual Debt Service (after deducting Assessments allocated to the years in which they would be received if the unpaid balance of each assessment roll were paid in the remaining number of installments with interest on the declining balance at the times and at the rate provided in the resolution confirming the assessment roll) for each such calendar or fiscal year for all Parity Bonds plus the Future Parity Bonds proposed to be issued.

(which shall include annual Assessment installments and Assessments paid during the 24-month period, but shall exclude any extraordinary payments of annual Assessment installments)

The Adjusted Net Revenue shall be the Net Revenue for a period of any 12 consecutive months out of the 24 months immediately preceding the date of delivery of such proposed Future Parity Bonds as adjusted by such Professional Utility Consultant to take into consideration changes in Net Revenue estimated to occur under the following conditions for each year after such delivery for so long as any Parity Bonds, including the Future Parity Bonds proposed to be issued, shall be outstanding:

(i) the additional Net Revenue that would have been received if any change in rates and charges adopted by resolution of the District prior to the date of such certificate and subsequent to the beginning of such 12-month period, had been in force during the full 12-month period;

(ii) the additional Net Revenue that would have been received if any facility of the System that became fully operational after the beginning of such 12-month period had been so operating for the entire period;

(iii) the additional Net Revenue estimated by such Professional Utility Consultant to be received from potential customers of the System with existing homes or other buildings that will be required to connect to any additions, betterments and improvements to and extensions of any facilities of the System that are (a) under construction at the time of such certificate or (b) will be constructed from the proceeds of the Future Parity Bonds to be issued;

(iv) the additional Net Revenue that would have been received if those customers added to the System subsequent to the beginning of such 12-month period had been customers for the entire period;

(v) the additional Net Revenue estimated to be received from any potential customers of the System who paid any required connection charge subsequent to the beginning of such 12-month period;

(vi) The additional Net Revenue estimated to be received from any person, firm, association, private or municipal corporation under any executed service contract, which net

revenue is not included in any of the sources of Net Revenue heretofore described in this subsection A(5); and

(vii) The estimated change in Net Revenue as a result of any actual or reasonably anticipated changes in the Cost of Maintenance and Operation after such 12-month period.

Such Professional Utility Consultant may rely upon, and his or her certificate shall have attached thereto, financial statements of the System certified by the District Manager or Treasurer showing income and expenses for the period upon which the same is based.

The certificate of such Professional Utility Consultant shall be conclusive and the only evidence required to show compliance with the provisions and requirements of this subsection (5); provided that if the District has on file a certificate of its Treasurer showing that Net Revenues without any adjustments are sufficient to meet the Coverage Requirement, then a certificate of a Professional Utility Consultant as described in this subsection (5) shall not be required.

B. Notwithstanding the foregoing requirement, if Future Parity Bonds are to be issued for the purpose of refunding at or prior to their maturity any part or all of the then outstanding Parity Bonds and the issuance of such refunding Future Parity Bonds will result in a debt service savings and does not require an increase of more than \$5,000 in any fiscal or calendar year for principal of and interest on such refunding Future Parity Bonds over and above the amount required in such year for the principal of and interest on the bonds being refunded thereby, the condition stated in subsection A(5) of this section need not be met.

Section 14. Junior Lien Bonds. Nothing herein contained shall prevent the District from issuing revenue bonds or like obligations which are a charge upon the Revenue of the System junior or inferior to the payments required to be made into the Bond Fund and Reserve Account therein for the payment of the Bonds or Future Parity Bonds, or from pledging the payment of special assessments into a fund or account created to pay and secure the payment of the principal of and interest on such junior lien bonds or obligations as long as such assessments are levied in a utility local improvement district or districts created in connection with carrying out

the improvements to be constructed from the proceeds of the sale of such junior lien bonds or obligations. Nothing herein contained shall prevent the District from issuing revenue bonds to refund maturing revenue bonds of the District for the payment of which moneys are not otherwise available.

Section 15. Lost or Destroyed Bonds. In case a Bond shall be lost, stolen or destroyed, the District may execute and the Bond Registrar may deliver a new bond or bonds of like amount, date, number and tenor to the registered owner thereof upon the registered owner paying the expenses and charges of the District in connection therewith and upon the registered owner filing with the Bond Registrar evidence satisfactory to said Bond Registrar that such bond or bonds were actually lost, stolen or destroyed, and of such registered owner's ownership thereof, and upon furnishing the District with indemnity satisfactory to the Bond Registrar.

Section 16. Form of Bonds. The Bonds shall be issued in substantially the following form:

Financial Security Assurance Inc. ("Financial Security"), New York, New York, has delivered its municipal bond insurance policy with respect to the scheduled payments due of principal of and interest on the Bonds of this issue maturing in the years 1998 through 2000 and 2003 through 2012, inclusive, to The Bank of New York, New York, New York, or its successor, as paying agent for the Bonds (the "Paying Agent"). Said Policy is on file and available for inspection at the principal office of the Paying Agent and a copy thereof may be obtained from Financial Security or the Paying Agent.

UNITED STATES OF AMERICA

NO. \$ _____

STATE OF WASHINGTON
BIRCH BAY WATER AND SEWER DISTRICT, WHATCOM COUNTY

WATER AND SEWER REVENUE BOND, 1997

INTEREST RATE: MATURITY DATE: CUSIP NO:

REGISTERED OWNER: CEDE & Co.

PRINCIPAL AMOUNT:

BIRCH BAY WATER AND SEWER DISTRICT, Whatcom County, Washington (the "District") hereby acknowledges itself to owe and for value received promises to pay, but only from the sources and as hereinafter provided, to the Registered Owner identified above, or registered assigns, on the Maturity Date identified above, the Principal Amount indicated above and to pay interest thereon from July 15, 1997, or the most recent date to which interest has been paid or duly provided for until payment of this bond at the Interest Rate set forth above, payable on March 1, 1998, and semiannually thereafter on the first day of each September and March.

This bond and the bonds of this issue are payable solely from the special fund of the District known as the "Water and Sewer Revenue Bond Redemption Fund" (the "Bond Fund") created pursuant to Resolution No. 583 (the "Bond Resolution") of the District. Both principal of and interest on this bond 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 bond at the principal office of the fiscal agencies of the State of Washington in either Seattle, Washington, or New York, New York (collectively the "Bond Registrar"). Interest shall be paid by mailing a check or draft (on the date such interest is due) to the Registered Owner or assigns at the address shown on the registration books of the Bond Registrar (the "Bond Register") as of the fifteenth day of the month prior to the interest payment date. So long as the bonds are in book entry form, the bonds shall be paid as provided in the Letter of Representation.

Reference is hereby made to additional provisions of this bond set forth below and such additional provisions shall for all purposes have the same effect as if set forth in this space. Reference is also made to the Bond Resolution as more fully describing the covenants with and the rights of registered owners of the bonds and registered assigns and the meanings of capitalized terms appearing on the bonds which are defined in the Bond Resolution.

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

It is hereby certified that all acts, conditions and things required by the Constitution and statutes of the State of Washington to exist and to have happened, been done and performed precedent to and in the issuance of this bond do exist and have happened, been done and performed and that the issuance of this bond and the bonds of this series does not violate any constitutional, statutory or other limitation upon the amount of bonded indebtedness that the District may incur.

IN WITNESS WHEREOF, Birch Bay Water and Sewer District, Whatcom County, Washington, has caused this bond to be executed by the facsimile signatures of the President and the Secretary of its Board of Commissioners, and the seal of the District to be imprinted or impressed hereon, as of the 15th day of July, 1997.

[Seal]

BIRCH BAY WATER AND SEWER
DISTRICT, WHATCOM COUNTY,
WASHINGTON

By /s/ facsimile signature
President, Board of Commissioners

ATTEST:

 /s/ facsimile signature
Secretary, Board of Commissioners

ADDITIONAL PROVISIONS

This bond is one of an authorized issue of bonds of like date and tenor, except as to number, amount, rate of interest and date of maturity in the aggregate principal amount of \$8,415,000, and is issued for the purpose of paying outstanding water and sewer revenue bond anticipation notes and financing capital improvements to the System.

The bonds of this issue are issued under and in accordance with the provisions of the Constitution and applicable statutes of the State of Washington and the Bond Resolution duly approved by the Board of Commissioners of the District. This bond and the bonds of this issue do not constitute a general obligation of the District, Whatcom County, the State of Washington, or any political subdivision thereof.

The District has reserved the right to redeem the Bonds maturing on and after September 1, 2008 at any time on or after September 1, 2007, in whole or in part, in maturities to be selected by the District and by lot within a maturity, at a price of par plus accrued interest to the redemption date.

Notice of any such intended redemption shall be given not less than 30 nor more than 60 days prior to the redemption date by first class mail, postage prepaid, to the Registered Owner of any bond to be redeemed at the address appearing on the Bond Register. The requirements of the Bond Resolution shall be deemed to be complied with when notice is mailed as herein provided, regardless of whether or not it is actually received by the Registered Owner of any bond. Interest on all such bonds so called for redemption shall cease to accrue on the date fixed for redemption unless such bond or bonds so called for redemption are not redeemed upon presentation made pursuant to such call.

Portions of the principal sum of this bond in installments of \$5,000 or any integral multiple thereof may also be redeemed in accordance with the terms set forth above, and if less than all of the principal sum hereof is to be redeemed, upon the surrender of this bond at the principal office of the Bond Registrar there shall be issued to the Registered Owner, without charge therefor, for

the then unredeemed balance of the principal sum hereof, at the option of the owner, a bond or bonds of like maturity and interest rate in any of the denominations authorized by the Bond Resolution.

Bonds are interchangeable for Bonds of any authorized denomination of equal aggregate principal amount and of the same interest rate and maturity upon presentation and surrender thereof to the Bond Registrar.

The District does hereby pledge and bind itself to set aside and pay into the Bond Fund and the Reserve Account created therein, all utility local improvement district assessments that may be hereafter required by law and resolution of the District to be paid therein when collected, and further pledges and binds itself to set aside out of the Revenue of the System and to pay into the Bond Fund and Reserve Account, the various amounts required by the Bond Resolution to be paid into said Fund and Account, all within the times provided by said Bond Resolution.

Said amounts so pledged to be paid out of Revenue of the System into the Bond Fund are hereby declared to be a prior lien and charge thereon superior to all other liens and charges of any kind or nature except for the Cost of Maintenance and Operation of the System (as such term is defined in the Bond Resolution) and equal in rank to any charges that may be made on the Bond Fund to pay and secure the payment of the principal of and interest on any revenue bonds which the District may issue later on a parity with the bonds of this issue.

The District has further bound itself to maintain its System in good condition and repair, to operate the same in an efficient manner and at a reasonable cost, and to establish, maintain and collect rates and charges for service furnished by its System which, together with other revenue of the District, will provide amounts sufficient to meet the Coverage Requirement (as defined in the Bond Resolution) after providing for such Cost of Maintenance and Operation but before depreciation.

The District hereby covenants and agrees with the Registered Owner of this bond that it will keep and perform all the covenants of this bond and of the Bond Resolution to be by it kept and performed. Reference is hereby made to the Bond Resolution for the definitions of capitalized terms used herein.

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

Reference to the Bond Resolution is made for a description of the nature and extent of the security for the Bonds, the funds or revenues pledged, and the terms and conditions upon which the Bonds are issued.

The following abbreviations, when used in the inscription on the face of the within bond, shall be construed as though they were written out in full according to applicable laws or regulations.

TEN COM - as tenants in common
TEN ENT - as tenants by the entireties
JT TEN - as joint tenants with right of survivorship and
not as tenants in common

UNIF GIFT (TRANSFERS) MIN ACT - _____ Custodian _____
(Cust) (Minor)

under Uniform Gifts (Transfers) to Minors Act _____
(State)

Additional abbreviations may also be used though not in the list above.

CERTIFICATE OF AUTHENTICATION

This bond is one of the bonds described in the within-mentioned Bond Resolution and is one of the Water and Sewer Revenue Bonds, 1997 of Birch Bay Water and Sewer District, Whatcom County, Washington, dated July 15, 1997.

WASHINGTON STATE FISCAL
AGENCY as Bond Registrar

By _____
Authorized Signer

ASSIGNMENT

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

PLEASE INSERT SOCIAL SECURITY OR TAXPAYER IDENTIFICATION
NUMBER OF TRANSFEREE

(Please print or typewrite name and address, including zip code of Transferee)

the within bond and does hereby irrevocably constitute and appoint _____
of _____, or its successor, as Bond Registrar to transfer said bond on the
books kept for registration thereof with full power of substitution in the premises.

DATED: _____

SIGNATURE GUARANTEED:

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

NOTE: The signature on this Assignment
must correspond with the name of the
Registered Owner as it appears upon the face
of the within bond in every particular,
without alteration or enlargement or any
change whatever.

Section 17. Execution of the Bonds. The Bonds shall be executed on behalf of the District with the facsimile or manual signatures of the President and Secretary of the Board, and shall have the seal of the District imprinted or impressed thereon.

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

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

Section 18. Sale of Bonds. The Purchase Contract prepared by Seattle-Northwest Securities Corporation, Seattle, Washington, dated July 17, 1997, to purchase the Bonds at the

price specified therein, plus accrued interest, if any, and under the terms and conditions thereof as provided in said offer and in this resolution is hereby in all respects accepted and approved.

The proper District officials are hereby authorized and directed to do everything necessary for the prompt execution, authentication, and delivery of the Bonds to said purchaser and for the proper application and use of the proceeds of sale thereof.

Section 19. Amendments.

A. The Board may adopt a resolution or resolutions supplemental hereto, which resolution or resolutions thereafter shall become a part of this resolution, for any one or more of the following purposes:

1. To add to the covenants and agreements of the District contained in this resolution other covenants and agreements thereafter to be observed which shall not adversely affect the interests of the registered owners of any Parity Bonds, or to surrender any right or power herein reserved to or conferred upon the District.

2. To make such provisions for the purpose of curing any ambiguities or of curing, correcting or supplementing any defective provision contained in this resolution or any resolution authorizing additional or refunding Parity Bonds in regard to matters or questions arising under such resolutions as the Board may deem necessary or desirable and not inconsistent with such resolutions and which shall not adversely affect the interests of the registered owners of the Parity Bonds in any material respect.

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

B. With the consent of the registered owners of not less than 65% in aggregate principal amount of the Parity Bonds then outstanding, the Board may adopt a resolution or resolutions supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this resolution or of any supplemental resolution; provided, however, that no such supplemental resolution shall:

1. Extend the fixed maturity of any Parity Bond or principal installments thereof, or reduce the rate of interest thereon, or extend the times of payment of interest from their respective due dates, or reduce the amount of the principal thereof, or reduce any premium payable on the redemption thereof, without the consent of the registered owner of each bond so affected; or

2. Reduce the aforesaid percentage of bondowners required to approve any such supplemental resolution, without the consent of the registered owners of all of the Parity Bonds then outstanding.

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

C. Upon the adoption of any supplemental resolution pursuant to the provisions of this section, this resolution shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations of the District under this resolution and all registered owners of the Parity Bonds outstanding hereunder shall thereafter be determined, exercised and enforced thereunder, subject in all respects to such modification and amendments, and all the terms and conditions of any such supplemental resolution shall be deemed to be a part of the terms and conditions of this resolution for any and all purposes.

D. Parity Bonds executed and delivered after the execution of any supplemental resolution adopted pursuant to the provisions of this section may have a notation as to any matter provided for in such supplemental resolution, and if such supplemental resolution shall so provide, new bonds so modified as to conform, in the opinion of the Board, to any modification of this resolution contained in any such supplemental resolution may be prepared by the District and delivered without cost to the registered owners of any affected Parity Bonds then outstanding, upon surrender for cancellation of such bonds, in equal aggregate principal amounts.

Section 20. Approval of Preliminary Official Statement. The District hereby approves the Preliminary Official Statement presented to the Board and authorizes the Underwriter's

distribution of the Preliminary Official Statement in connection with the offering of the Bonds. Pursuant to the Rule, the District hereby deems the Preliminary Official Statement as final as of its date except for the omission of information dependent upon the pricing of the issue and the completion of the underwriting agreement, such as offering prices, interest rates, selling compensation, aggregate principal amount, principal amount per maturity, delivery dates, and other terms of the Bonds dependent on the foregoing matters. The District agrees to cooperate with the Underwriter to deliver or cause to be delivered, within seven business days from the date of the sale of the Bonds and in sufficient time to accompany any confirmation that requests payment from any customer of the Underwriter for the Bonds, copies of a final official statement in sufficient quantity to comply with paragraph (b)(4) of the Rule and the rules of the MSRB.

Section 21. Undertaking to Provide Ongoing Disclosure.

A. Contract/Undertaking. This section constitutes the District's written undertaking for the benefit of the owners of the Bonds as required by Section (b)(5) of the Rule. The District is an obligated person with respect to less than \$10,000,000, of municipal securities, including the Bonds.

B. Financial Statements/Operating Data. The District agrees to provide or cause to be provided to each person upon request or to the SID, if any, a copy of its latest publicly available annual financial statements prepared in accordance with the Budget Accounting and Reporting System prescribed by the Washington State Auditor pursuant to RCW 43.09.200 (or any successor statute) and generally of the type included in the official statement for the Bonds under the headings "Comparative Income Statement" and Comparative Balance Sheet."

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

1. Principal and interest payment delinquencies;
2. Non-payment related defaults;

3. Unscheduled draws on debt service reserves for the Bonds reflecting financial difficulties;
4. Unscheduled draws on credit enhancements for the Bonds 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 the rights of Bond owners;
8. Bond calls (optional redemption of Bonds prior to their maturity);
9. Defeasances;
10. Release, substitution or sale of property, if any, securing repayment of the Bonds; and
11. Rating changes.

No property secures repayment of the Bonds.

D. Termination/Modification. The District's obligations to provide notices of material events shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. This section, or any provision hereof, shall be null and void if the District (1) obtains an opinion of nationally recognized bond counsel to the effect that those portions of the Rule which require this section, or any such provision, are invalid, have been repealed retroactively or otherwise do not apply to the Bonds; and (2) notifies each then existing NRMSIR and the SID, if any, of such opinion and the cancellation of this section.

Notwithstanding any other provision of the undertaking, the District may amend the provisions described in this section and any provision of this section may be waived, with an approving opinion of nationally recognized bond counsel and in accordance with the Rule. In the event of any amendment of or waiver of a provision of this section, the District will describe such amendment in the next annual report, and will include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of

accounting principles on the presentation) of financial information or operating data being presented by the District. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change will be given in the same manner as for a material event, and (ii) the annual report for the year in which the change is made will present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

E. Bond Owner's Remedies Under This Section. The right of any Bond Owner or Beneficial Owner of Bonds to enforce the provisions of this section shall be limited to a right to obtain specific enforcement of the District's obligations hereunder, 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 Bonds hereunder. For purposes of this section, "Beneficial Owner" means any person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds, including persons holding Bonds through nominees or depositories.

Section 22. Approval of Commitment; Provisions Relating to Bond Insurance. In accordance with the offer of the Underwriter to purchase the Bonds, the Board hereby approves the commitment of the Bond Insurer to provide a policy of municipal bond insurance guaranteeing the payment when due of principal of and interest on the Bonds maturing in the years 1998 through 2000 and 2003 through 2012, inclusive. The District further authorizes and directs all proper officers, agents, attorneys and employees of the District to cooperate with the Bond Insurer in preparing such additional agreements, certificates, and other documentation on behalf of the District as shall be necessary or advisable in providing for such policy of municipal bond insurance with respect to the Bonds.

(a) The prior written consent of the Bond Insurer shall be a condition precedent to the deposit of any credit instrument provided in lieu of a cash deposit into the Reserve Account.

(b) No contract shall be entered into nor any action taken by which the rights of the Bond Insurer or security for or sources of payment on the Bonds may be impaired or prejudiced except upon obtaining the prior written consent of the Bond Insurer.

(c) The Bond Insurer shall be deemed to be the sole holder of the Bonds insured by it for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the holders of the Bonds insured by it are entitled to take pursuant to this resolution.

(d) In the event the maturity of the Bonds is accelerated, the Bond Insurer may elect, in its sole discretion, to pay accelerated principal and interest accrued on such principal to the date of acceleration (to the extent unpaid by the District) and the Bond Registrar shall be required to accept such amounts. Upon payment of such accelerated principal and interest accrued to the acceleration date as provided above, the Bond Insurer's obligations under the Bond Insurance Policy with respect to such Bonds shall be fully discharged.

(e) No grace period for a covenant default shall exceed 30 days, nor be extended for more than 60 days, without the prior written consent of the Bond Insurer.

(f) The Bond Insurer shall be included as a third party beneficiary to this resolution.

(g) This resolution may not be amended without the prior written consent of the Bond Insurer. Copies of any modification or amendment to this resolution shall be sent to Standard & Poor's Ratings Services, a Division of the McGraw-Hill Companies, Inc. and Moody's Investors Service at least 10 days prior to the effective date thereof.

(h) Rights of the Bond Insurer to direct or consent to District or Bondholder actions under this resolution shall be suspended during any period in which the Bond Insurer is in default in its payment obligations under the Bond Insurance Policy (except to the extent of amounts previously paid by the Bond Insurer and due and owing to the Bond Insurer) and shall be of no force or effect in the event the Bond Insurance Policy is no longer in effect or the Bond

Insurer asserts that the Bond Insurance Policy is not in effect or the Bond Insurer shall have provided written notice that it waives such rights.

(i) The rights granted to the Bond Insurer under this section to request, consent to or direct any action are rights granted to the Bond Insurer in consideration of its issuance of the Bond Insurance Policy. Any exercise by the Bond Insurer of such rights is merely an exercise of the Bond Insurer's contractual rights and shall not be construed or deemed to be taken for the benefit or on behalf of the Bondholder nor does such action evidence any position of the Bond Insurer, positive or negative, as to whether Bondholder consent is required in addition to consent of the Bond Insurer.

(j) Only (1) cash, (2) non-callable direct obligations of the United States of America ("Treasuries"), (3) evidences of ownership of proportionate interests in future interest and principal payments on Treasuries held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying Treasuries are not available to any person claiming through the custodian or to whom the custodian may be obligated or (4) pre-funded municipal obligations rated "AAA" and "Aaa" by S&P and Moody's, respectively (or any combination thereof) shall be authorized to be used to effect defeasance of the Bonds unless the Bond Insurer otherwise approves.

To accomplish defeasance of the Bonds, the District shall cause to be delivered (i) a report of an independent firm of nationally recognized certified public accountants or such other accountant as shall be acceptable to the Bond Insurer ("Accountant") verifying the sufficiency of the escrow established to pay the Bonds in full on the maturity date ("Verification"), (ii) an escrow deposit agreement (which shall be acceptable in form and substance to the Bond Insurer), and (iii) an opinion of nationally recognized bond counsel to the effect that the Bonds are no longer "Outstanding" under this resolution, each Verification and defeasance opinion shall be acceptable in form and substance, and addressed, to the District, the Bond Registrar and the Bond Insurer. In the event a forward purchase agreement will be employed in the refunding, such

agreement shall be subject to the approval of the Bond Insurer and shall be accompanied by such opinion of counsel as may be required by the Bond Insurer. The Bond Insurer shall be provided with final drafts of the above-referenced documentation not less than five business days prior to the funding of the escrow.

Bonds shall be deemed "Outstanding" under this resolution unless and until they are in fact paid and retired or the above criteria is met.

(k) Amounts paid by the Bond Insurer under the Bond Insurance Policy shall not be deemed paid for purposes of this resolution and shall remain Outstanding and continue to be due and owing until paid by the District in accordance with this resolution.

This resolution shall not be discharged unless all amounts due or to become due to the Bond Insurer have been paid in full.

(l) Claims upon the Bond Insurance Policy and payments by and to the Bond Insurer:

(i) If, on the third business day prior to the related scheduled interest payment date or principal payment date ("Payment Date") there is not on deposit with the Bond Registrar, after making all transfers and deposits required under this Resolution, moneys sufficient to pay the principal of and interest on the Bonds due on such Payment Date, the Bond Registrar shall give notice to the Bond Insurer and to its designated agent (if any) (the "Insurers Fiscal Agent") by telephone or telecopy of the amount of such deficiency by 12:00 noon, New York City time, on such business day. If, on the second business day prior to the related Payment Date, there continues to be a deficiency in the amount available to pay the principal of and interest on the Bonds due on such Payment Date, the Bond Registrar shall make a claim under the Bond Insurance Policy and give notice to the Bond Insurer and the Insurer's Fiscal Agent (if any) by telephone of the amount of such deficiency, and the allocation of such deficiency between the amount required to pay interest on the Bonds and the amount required to pay principal of the Bonds, confirmed in writing to the Bond Insurer and the Insurer's Fiscal Agent by 12:00 noon,

New York City time, on such second business day by filling in a form of Notice of Claim and Certificate delivered with the Bond Insurance Policy.

(ii) In the event the claim to be made is for a mandatory sinking fund redemption installment, upon receipt of the moneys due, the Bond Registrar shall authenticate and deliver to affected Bondholders who surrender their Bonds, a new Bond or Bonds in an aggregate principal amount equal to the unredeemed portion of the Bond surrendered. The Bond Registrar shall designate any portion of payment of principal on Bonds paid by the Bond Insurer, whether by virtue of mandatory sinking fund redemption, maturity or other advancement of maturity, on its books as a reduction in the principal amount of Bonds registered to the then current Bondholder, whether DTC or its nominee or otherwise, and shall issue a replacement Bond to the Bond Insurer, registered in the name of Financial Security Assurance Inc., in a principal amount equal to the amount of principal so paid (without regard to authorized denominations); provided that the Bond Registrar's failure to so designate any payment or issue any replacement Bond shall have no effect of the amount of principal or interest payable by the District of any Bond or the subrogation rights of the Bond Insurer.

(iii) The Bond Registrar shall keep a complete and accurate record of all funds deposited by the Bond Insurer into the Policy Payments Account and the allocation of such funds to payment of interest on and principal paid in respect to any Bond. The Bond Insurer shall have the right to inspect such records at reasonable times upon reasonable notice to the Bond Registrar.

(iv) Upon payment of a claim under the Bond Insurance Policy the Bond Registrar shall establish a separate special purpose trust account for the benefit of Bondholders referred to herein as the "Policy Payments Account" and over which the Bond Registrar shall have exclusive control and sole right of withdrawal. The Bond Registrar shall receive any amount paid under the Bond Insurance Policy in trust on behalf of Bondholders and shall deposit any such amount in the Policy Payments Account and distribute such amount only for purposes of making the payments for which a claim was made. Such amounts shall be

disbursed by the Bond Registrar to Bondholders in the same manner as principal and interest payments are to be made with respect to the Bonds under the sections hereof regarding payment of Bonds. It shall not be necessary for such payments to be made by checks or wire transfers separate from the check or wire transfer used to pay debt service with other funds available to make such payments.

(v) Funds held in the Policy Payments Account shall not be invested.

(vi) Any funds remaining in the Policy Payments Account following a Bond payment date shall promptly be remitted to the Bond Insurer.

(m) The Bond Insurer shall, to the extent it makes any payment of principal of (or, in the case of Capital Appreciation Bonds, accreted value) or interest on the Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Bond Insurance Policy.

(n) The District shall agree to pay or reimburse the Bond Insurer any and all charges, fees, costs and expenses which the Bond Insurer may reasonably pay or incur in connection with (i) the enforcement, defense or preservation of any rights or security in respect to this resolution, (ii) the pursuit of any remedies under this resolution or otherwise afforded by law or equity, (iii) any material amendment, waiver or other action with respect to, or related to, this resolution, (iv) the violation by the District of any law, rule or regulation, or any judgment, order or decree applicable to it or (v) any litigation or other dispute in connection with this resolution or the transactions contemplated thereby, other than amounts resulting from the failure of the Bond Insurer to honor its obligations under the Bond Insurance Policy. The Bond Insurer reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver or consent proposed in respect to this resolution.

(o) The Bond Insurer shall be entitled to pay principal (or, in the case of Capital Appreciation Bonds, accreted value) or interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the District (as such terms are defined

in the Bond Insurance Policy), whether or not the Bond Insurer has received a Notice (as defined in the Bond Insurance Policy) of Nonpayment or a claim upon the Bond Insurance Policy.

(p) The notice address of the Bond Insurer is: Financial Security Assurance Inc., 350 Park Avenue, New York, New York 10022-6022, Attention: Managing Director -- Surveillance -- Re: Policy No. __. Telephone: (212) 826-0100; Telecopier: (212) 339-3529. In each case in which notice or other communication refers to an Event of Default or with respect to which failure on the part of the Bond Insurer to respond shall be deemed to constitute consent or acceptance, then a copy of such notice or other communication shall also be sent to the attention of General Counsel and shall be marked to indicate "URGENT MATERIAL ENCLOSED."

(q) The Bond Insurer shall be provided with the following information:

- (i) Annual audited financial statements within 180 days after the end of the District's fiscal year and the District's annual budget within 30 days after the approval thereof;
- (ii) Notice of any draw upon the Reserve Account within two business days after knowledge thereof other than (a) withdrawals or amounts in excess of the Reserve Account Requirement and (b) withdrawals in connection with a refunding of Bonds;
- (iii) Notice of any default within five business days after knowledge thereof;
- (iv) Prior notice of the advance refunding or redemption of any of the Bonds, including the principal amount, maturities and CUSIP numbers thereof;
- (v) Notice of the resignation or removal of the Paying Agent and Bond Registrar and the appointment of, and acceptance of duties by, any successor thereto other than a change of state fiscal agents;
- (vi) The commencement of any proceeding by or against the District commenced under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (an "Insolvency Proceeding");

(vii) The making of any claim in connection with any Insolvency Proceeding seeking the avoidance as a preferential transfer of any payment of principal of, or interest on, the Bonds;

(viii) A full original transcript of all proceedings relating to the execution of any amendment or supplement to this resolution; and

(ix) All reports, notices and correspondence to be delivered under the terms of this resolution.

(r) Notwithstanding satisfaction of other conditions to the issuance of additional bonds contained in this resolution, no such issuance may occur (1) should any Event of Default (or any event which, once all notice or grace periods have passed, would constitute an Event of Default) have occurred and be continuing unless such default shall be cured upon issuance and (2) unless the Reserve Account is fully funded at its requirement (including the new issue) upon the issuance of such additional bonds, in either case unless otherwise permitted by the Bond Insurer.

Section 23. 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 deemed 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 Bonds issued in exchange therefor.

Section 24. General Authorization. The President and Secretary of the Board, the Treasurer, and each of the other appropriate officers 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 25. Effective Date. This resolution shall be effective after its adoption as provided by law.

ADOPTED by the Board of Commissioners of Birch Bay Water and Sewer District, Whatcom County, Washington, this 17th day of July, 1997.

BIRCH BAY WATER AND SEWER
DISTRICT WHATCOM COUNTY,
WASHINGTON

By Carl J. Reinhardt
President Board of Commissioners

By Don Meryel
Commissioner

By Patricia A. Hesse
Commissioner

Attest:

Don Meryel
Secretary, Board of Commissioners

CERTIFICATE

I, the undersigned, Secretary of the Board of Commissioners of Birch Bay Water and Sewer District, Whatcom County, Washington (herein called the "District"), DO HEREBY CERTIFY:

1. That the attached Resolution numbered 583 herein called the "Resolution") is a true and correct copy of a resolution of the District as finally passed at a special meeting of the Board of Commissioners of the District held on the 17th day of July, 1997, 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 legal quorum was present throughout the meeting and a legally sufficient number of members of the Board voted in the proper manner for the passage of the Resolution; that all other requirements and proceedings incident to the proper adoption or passage 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 17th day of July, 1997.



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

[SEAL]

QUALIFIED INVESTMENTS

THESE ARE BROAD GUIDELINES BASED ON S & P PARAMETERS OTHER INVESTMENTS DESIRED BY THE OBLIGOR MAY BE INCLUDED IN THE RESOLUTION SUBJECT TO FSA APPROVAL

1. Direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America ("United States Treasury Obligations"), (b) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America, (c) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by any agency or instrumentality of the United States of America when such obligations are backed by the full faith and credit of the United States of America, or (d) evidences of ownership of proportionate interests in future interest and principal payments on obligations described above held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated.
2. Federal Housing Administration debentures.
3. The listed obligations of government-sponsored agencies which are not backed by the full faith and credit of the United States of America:
 - Federal Home Loan Mortgage Corporation (FHLMC)
Participation certificates (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)
Senior Debt obligations
 - Farm Credit Banks (formerly: Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives)
Consolidated system-wide bonds and notes
 - Federal Home Loan Banks (FHL Banks)
Consolidated debt obligations
 - Federal National Mortgage Association (FNMA)
Senior debt obligations
Mortgage-backed securities (excluded are stripped mortgage securities which are purchased at prices exceeding their principal amounts)
 - Student Loan Marketing Association (SLMA)
Senior debt obligations (excluded are securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date)
 - Financing Corporation (FICO)
Debt obligations
 - Resolution Funding Corporation (REFCORP)
Debt obligations
4. Unsecured certificates of deposit, time deposits, and bankers' acceptances (having maturities of not more than 30 days) of any bank the short-term obligations of which are rated 'A-1' or better by S&P.
5. Deposits the aggregate amount of which are fully insured by the Federal Deposit Insurance Corporation (FDIC), in banks which have capital and surplus of at least \$5 million.
6. Commercial paper (having original maturities of not more than 270 days) rated 'A-1+' by S&P and 'Prime-1' by Moody's.
7. Money market funds rated 'AAm' or 'AAM-G' by S&P, or better.

8. "State Obligations", which means:
- A. Direct general obligations of any state of the United States of America or any subdivision or agency thereof to which is pledged the full faith and credit of a state the unsecured general obligation debt of which is rated 'A3' by Moody's and 'A' by S&P, or better, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured general obligation debt is so rated.
 - B. Direct general short-term obligations of any state agency or subdivision or agency thereof described in (A) above and rated 'A-1+' by S&P and 'MIG-1' by Moody's.
 - C. Special Revenue Bonds (as defined in the United States Bankruptcy Code) of any state, state agency or subdivision described in (A) above and rated 'AA' or better by S&P and 'Aa' or better by Moody's.
9. Pre-refunded municipal obligations rated "AAA" by S & P and "Aaa" by Moody's meeting the following requirements:
- A. the municipal obligations are (1) not subject to redemption prior to maturity or (2) the trustee for the municipal obligations has been given irrevocable instructions concerning their call and redemption and the issuer of the municipal obligations has covenanted not to redeem such municipal obligations other than as set forth in such instructions;
 - B. the municipal obligations are secured by cash or United States Treasury Obligations which may be applied only to payment of the principal of, interest and premium on such municipal obligations;
 - C. the principal of and interest on the United States Treasury Obligations (plus any cash in the escrow) has been verified by the report of independent certified public accountants to be sufficient to pay in full all principal of, interest, and premium, if any, due and to become due on the municipal obligations ("Verification");
 - D. the cash or United States Treasury Obligations serving as security for the municipal obligations are held by an escrow agent or trustee in trust for owners of the municipal obligations;
 - E. no substitution of a United States Treasury Obligation shall be permitted except with another United States Treasury Obligation and upon delivery of a new Verification; and
 - F. the cash or United States Treasury Obligations are not available to satisfy any other claims, including those by or against the trustee or escrow agent.
10. Repurchase agreements:
- With (1) any domestic bank, or domestic branch of a foreign bank, the long term debt of which is rated at least "A" by S&P and Moody's; or (2) any broker-dealer with "retail customers" or a related affiliate thereof which broker-dealer has, or the parent company (which guarantees the provider) of which has, long-term debt rated at least "A" by S&P and Moody's, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corporation; or (3) any other entity rated "A" or better by S&P and Moody's and acceptable to the Insurer, provided that:
- A. The market value of the collateral is maintained at levels and upon such conditions as would be acceptable to S & P and Moody's to maintain an "A" rating in an "A" rated structured financing (with a market value approach);

- B. The Trustee or a third party acting solely as agent therefor or for the Issuer (the "Holder of the Collateral") has possession of the collateral or the collateral has been transferred to the Holder of the Collateral in accordance with applicable state and federal laws (other than by means of entries on the transferor's books);
- C. The repurchase agreement shall state and an opinion of counsel shall be rendered at the time such collateral is delivered that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession);
- D. All other requirements of S&P in respect of repurchase agreements shall be met.
- E. The repurchase agreement shall provide that if during its term the provider's rating by either Moody's or S&P is withdrawn or suspended or falls below "A-" by S&P or "A3" by Moody's, as appropriate, the provider must, at the direction of the Issuer or the Trustee (who shall give such direction if so directed by the Insurer), within 10 days of receipt of such direction, repurchase all collateral and terminate the agreement, with no penalty or premium to the Issuer or Trustee.

Notwithstanding the above, if a repurchase agreement has a term of 270 days or less (with no evergreen provision), collateral levels need not be as specified in (A) above, so long as such collateral levels are 103% or better and the provider is rated at least "A" by S&P and Moody's, respectively.

- 11. Investment agreements with a domestic or foreign bank or corporation (other than a life or property casualty insurance company) the long-term debt of which, or, in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, of the guarantor is rated at least "AA" by S&P and "Aa" by Moody's; provided that, by the terms of the investment agreement:
 - A. interest payments are to be made to the Trustee at times and in amounts as necessary to pay debt service (or, if the investment agreement is for the construction fund, construction draws) on the Bonds;
 - B. the invested funds are available for withdrawal without penalty or premium, at any time upon not more than seven days' prior notice; the Issuer and the Trustee hereby agree to give or cause to be given notice in accordance with the terms of the investment agreement so as to receive funds thereunder with no penalty or premium paid;
 - C. the investment agreement shall state that is the unconditional and general obligation of, and is not subordinated to any other obligation of, the provider thereof or, if the provider is a bank, the agreement or the opinion of counsel shall state that the obligation of the provider to make payments thereunder ranks pari passu with the obligations of the provider to its other depositors and its other unsecured and unsubordinated creditors;
 - D. the Issuer or the Trustee receives the opinion of domestic counsel (which opinion shall be addressed to the Issuer and the Insurer) that such investment agreement is legal, valid, binding and enforceable upon the provider in accordance with its terms and of foreign counsel (if applicable) in form and substance acceptable, and addressed to, the Insurer;

- E. the investment agreement shall provide that if during its term
- i) the provider's rating by either S&P or Moody's falls below "AA-" or "Aa3", respectively, the provider shall, at its option, within 10 days of receipt of publication of such downgrade, either (i) collateralize the investment agreement by delivering or transferring in accordance with applicable state and federal laws (other than by means of entries on the provider's books) to the Issuer, the Trustee or a third party acting solely as agent therefor (the "Holder of the Collateral") collateral free and clear of any third-party liens or claims the market value of which collateral is maintained at levels and upon such conditions as would be acceptable to S & P and Moody's to maintain an "A" rating in an "A" rated structured financing (with a market value approach); or (ii) repay the principal of and accrued but unpaid interest on the investment, and
 - ii) the provider's rating by either S&P or Moody's is withdrawn or suspended or falls below "A-" or "A3", respectively, the provider must, at the direction of the Issuer or the Trustee (who shall give such direction if so directed by the Insurer), within 10 days of receipt of such direction, repay the principal of and accrued but unpaid interest on the investment, in either case with no penalty or premium to the Issuer or Trustee, and
- F. The investment agreement shall state and an opinion of counsel shall be rendered, in the event collateral is required to be pledged by the provider under the terms of the investment agreement, at the time such collateral is delivered, that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession);
- G. the investment agreement must provide that if during its term
- i) the provider shall default in its payment obligations, the provider's obligations under the investment agreement shall, at the direction of the Issuer or the Trustee (who shall give such direction if so directed by the Insurer), be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Issuer or Trustee, as appropriate, and
 - ii) the provider shall become insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, etc. ("event of insolvency"), the provider's obligations shall automatically be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Issuer or Trustee, as appropriate.