

PUBLIC UTILITY DISTRICT NO. 1 OF  
SKAGIT COUNTY, WASHINGTON

RESOLUTION NO. 2272-20

A RESOLUTION of the Commission of Public Utility District No. 1 of Skagit County, Washington, relating to the water supply and distribution system of the District; providing for the issuance and sale of a water revenue bond for the purpose of providing funds to pay all or a portion of the cost of constructing the Judy Reservoir to Mount Vernon water transmission line and other capital projects of the District, to refund all of the outstanding water revenue bonds of the District, and to pay the administrative costs of the refunding and the costs of issuance and sale of the bond; fixing certain terms and covenants of the bond; and providing for other related matters.

ADOPTED JANUARY 21, 2020

Prepared by:

Foster Garvey PC  
1111 Third Avenue, Suite 3000  
Seattle, Washington  
(206) 447-4400

## TABLE OF CONTENTS

Section 1.	Definitions.....	1
Section 2.	Findings and Determinations .....	6
Section 3.	Authorization of the Bond .....	7
Section 4.	Description of the Bond.....	7
Section 5.	Registrar; Registration and Transfer of Bond.....	8
Section 6.	Form and Execution of Bond.....	9
Section 7.	Payment of Bond.....	9
Section 8.	Prepayment of Bond .....	9
Section 9.	Failure to Pay Principal.....	9
Section 10.	Application of Bond Proceeds; Construction Fund; Refunding Plan .....	10
Section 11.	Bond Fund.....	11
Section 12.	Rate Stabilization Fund.....	12
Section 13.	Pledge of Net Revenue and Lien Position of Parity Bonds .....	12
Section 14.	Flow of Funds .....	12
Section 15.	Covenants.....	13
Section 16.	Future Parity Bonds .....	16
Section 17.	Separate Utility Systems .....	17
Section 18.	Contract Resource Obligations .....	17
Section 19.	Tax Matters. ....	18
Section 20.	Sale and Delivery of the Bond.....	18
Section 21.	General Authorization and Ratification .....	19
Section 22.	Severability .....	19
Section 23.	Effective Date .....	19

PUBLIC UTILITY DISTRICT NO. 1 OF  
SKAGIT COUNTY, WASHINGTON

RESOLUTION NO. 2272-20

A RESOLUTION of the Commission of Public Utility District No. 1 of Skagit County, Washington, relating to the water supply and distribution system of the District; providing for the issuance and sale of a water revenue bond for the purpose of providing funds to pay all or a portion of the cost of constructing the Judy Reservoir to Mount Vernon water transmission line and other capital projects of the District, to refund all of the outstanding water revenue bonds of the District, and to pay the administrative costs of the refunding and the costs of issuance and sale of the bond; fixing certain terms and covenants of the bond; and providing for other related matters.

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

Section 1. Definitions. As used in this resolution, the following words shall have the following meanings:

“Annual Debt Service” means, as of any date of calculation, for any Parity Bonds for any year, all amounts scheduled to be paid in that year in respect of principal (whether upon maturity or mandatory sinking fund redemption) of and interest on those Parity Bonds. In calculating Annual Debt Service for any future year, the interest rate on each Variable Interest Rate Bond shall be assumed to equal 90% of the average Bond Buyer Revenue Bond Index (or comparable index, or, if no comparable index can be obtained, 80% of the interest rate for actively traded 30-year United States Treasury obligations) during the year preceding the date on which the calculation is made.

“Acquired Obligations” means the United States Treasury Certificates of Indebtedness, Notes, and Bonds—State and Local Government Series and other direct, noncallable obligations of the United States of America purchased to accomplish the refunding of the Refunded Bonds as authorized by this resolution and in accordance with the Refunded Bond Resolutions.

“Average Annual Debt Service” means, as of any date of calculation, for any Parity Bonds, the sum of the Annual Debt Service on those Parity Bonds for each year during which any of those Parity Bonds are scheduled to remain outstanding divided by the integral number of those years.

“Bank” means Banner Bank and its successors.

“Bank Proposal” means the proposal of the Bank to purchase the Bond on the terms and conditions set forth therein.

“Bond” means the bond issued pursuant to and for the purposes provided in this resolution.

“Bond Counsel” means the firm of Foster Garvey PC, its successor, or any other attorney or firm of attorneys selected by the District with a nationally recognized standing as bond counsel in the field of municipal finance.

“Bond Fund” means the Water Revenue Bond Fund, 1993, created by Resolution No. 1583-93 in the office of the Treasurer.

“Bond Insurance” means any bond insurance, letter of credit, guaranty, surety bond, or similar credit enhancement device providing for or securing the payment of all or part of the principal of and interest on any Parity Bonds.

“Bond Register” means the books or records maintained by the Registrar for the purpose of identifying ownership of the Bond.

“Code” means the United States Internal Revenue Code of 1986, as amended, and applicable rules and regulations promulgated thereunder.

“Commission” means the Commission of the District.

“Construction Fund” means the special fund heretofore created by the District out of which is paid the costs of acquiring, constructing, installing, and equipping improvements to and betterments and extensions of the System.

“Contract Resource Obligation” means any obligation of the District designated as such and entered into in accordance with Section 18.

“Coverage Requirement” for any year means Net Revenue not less than 1.25 times Annual Debt Service for all outstanding Parity Bonds.

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

“Future Parity Bond” means each water revenue bond of the District issued after the Issue Date the payment of which is secured by a lien and charge on Net Revenue on a parity with the lien and charge on Net Revenue that secure payment of the Bond.

“General Manager” means the General Manager of the District or any other officer who succeeds to substantially all of the responsibilities of that office specified in this resolution.

“Gross Revenue” means all earnings, revenues, other charges or fees, and money received by the System or its funds from any source whatsoever, including investments thereof, but shall not include: (a) revenues of a Separate Utility System; (b) grants in aid of construction; (c) District-levied taxes; (d) fees and charges collected on behalf of a third party; (e) proceeds from the sale of District property; (f) principal proceeds of bonds or other obligations; (g) proceeds of liability, casualty, and other insurance payments (other than business interruption

insurance); (g) earnings on any of the foregoing; or (h) earnings or proceeds from any investments in a trust, defeasance, or escrow fund created to defease or refund District obligations (until commingled with other earnings and revenues of the District) or held in a special account for the purpose of paying a rebate to the United States Government under the Code.

“Independent Utility Consultant” means (a) a licensed professional engineer, who is not an employee of the District, and who is experienced in the design, construction, and operation of municipal utilities or (b) an independent certified public accountant or utility rate consultant experienced with the development of rates and charges for water utilities similar to the System.

“Issue Date” means the date of initial issuance and delivery of the Bond to the Bank.

“Maintenance and Operating Expenses” means all reasonable expenses incurred by the District in causing the System to be operated and maintained in good repair, working order, and condition, including reasonable reserves therefor; payments under any Contract Resource Obligation; deposits, premiums, assessments, or other payments for insurance; payments into pension, health, and welfare funds; taxes imposed by governmental entities other than the District and payments in lieu thereof; payments made to any other public or private entity for water supply, treatment, storage, distribution, and disposal or for other services; and any other expenses of the System properly treated as operating expenses under applicable generally accepted accounting principles; but not including: (a) depreciation or amortization; (b) capital additions or capital replacements to the System; (c) interest on indebtedness; (d) payments to any third party of fees and charges collected on behalf of the third party; or (e) payments of judgments, payments in settlement of litigation, and other extraordinary, nonrecurring expenses of the System.

“Maximum Annual Debt Service” means, as of any date of calculation, for any Parity Bonds, the maximum Annual Debt Service on those Parity Bonds in any year during which any of those Parity Bonds are scheduled to remain outstanding.

“Net Revenue” means, for any year, Gross Revenue plus withdrawals from the Rate Stabilization Fund in accordance with Section 12, less Maintenance and Operating Expenses, less deposits into the Rate Stabilization Fund in accordance with Section 12. In calculating Net Revenue, the District shall not take into consideration any unrealized gains or losses with respect to any real or personal property, investment, agreement, pension obligation, or other post-employment benefit that the District may be required to recognize under generally accepted accounting principles.

“Parity Bonds” means the Bond and any Future Parity Bonds.

“Principal and Interest Account” means the account of that name in the Bond Fund.

“Project” means, collectively, the construction of the Judy Reservoir to Mount Vernon water transmission line and other capital projects of the District.

“Rate Stabilization Fund” means the fund of that name authorized to be created by this resolution.

“Redemption Date” means each date fixed by the District for prepayment or redemption of the Refunded Bonds.

“Refunded Bond Resolutions” means, collectively, Resolution No. 2162-09, pursuant to which the 2009B Bonds were issued, and Resolution No. 2230-16, pursuant to which the 2016 Bond and the 2017 Bond were issued.

“Refunded Bonds” means, collectively, all of the outstanding 2009B Bonds, 2016 Bond, and 2017 Bond.

“Refunding Plan” means (as it may be further described in the Refunding Trust Agreement):

(a) the deposit with the Refunding Trustee of proceeds of the Bond (together with other money of the District, if necessary);

(b) the purchase by the Refunding Trustee of the Acquired Obligations and the application of the principal of and interest on the Acquired Obligations (and any other cash balance) to the call, payment, and redemption of the Refunded Bonds on the Redemption Dates at a price of the principal amount being redeemed plus any accrued interest; and

(c) the payment of the administrative costs of carrying out the foregoing and the costs of issuance and sale of the Bond.

“Refunding Trust Agreement” means a refunding trust or escrow agreement between the District and the Refunding Trustee, dated the Issue Date, providing for the carrying out of the Refunding Plan.

“Refunding Trustee” means U.S. Bank National Association, serving as refunding trustee or escrow agent, or any successor trustee or escrow agent.

“Registered Owner” means the person in whose name the Bond is registered on the Bond Register.

“Registrar” means the Treasurer or any successor bond registrar selected by the District.

“Reserve Account” means the account of that name in the Bond Fund.

“Reserve Insurance” means any bond insurance, letter of credit, guaranty, surety bond, or similar credit enhancement device providing for all or part of the Reserve Requirement that is issued by an institution that has been assigned a credit rating at the time of issuance in one of the three highest rating categories of a nationally recognized rating agency (without regard to numeric or symbolic gradations within a rating category).

“Reserve Requirement” means, for the Bond, zero, and for any Future Parity Bonds, the amount, if any, designated pursuant to the resolution authorizing the issuance of the Future Parity Bonds, which amount shall not exceed, as of any date of calculation, the least of: (a) Maximum

Annual Debt Service on all outstanding Parity Bonds secured by the Reserve Account; (b) 125% of Average Annual Debt Service on all outstanding Parity Bonds secured by the Reserve Account; and (c) 10% of the original proceeds of each series of outstanding Parity Bonds secured by the Reserve Account, reduced by the corresponding principal amount of any such series of outstanding Parity Bonds thereafter prepaid or redeemed at the option of the District or defeased, in whole or in part.

“Separate Utility System” means a separate utility system created, acquired, constructed, financed, owned, or operated by the District in accordance with Section 17.

“State” means the State of Washington.

“System” means (a) the water public utility property and assets, real and personal, tangible and intangible, now owned and operated by the District, as currently in existence and including all additions, betterments, and extensions at any time made; (b) the telecommunications public utility property and assets, real and personal, tangible and intangible, now owned and operated by the District, as currently in existence and including all additions, betterments, and extensions at any time made; (c) any wastewater public utility property and assets subsequently owned and operated by the District to the extent that the wastewater system is combined with the System; (d) any storm and surface water drainage public utility property and assets subsequently owned and operated by the District to the extent that the storm and surface water drainage system is combined with the System; and (e) any other system or utility that may lawfully be combined with the foregoing, but excluding any electric generation or distribution system or electric generation or distribution utility of the District and any Separate Utility System.

“System of Registration” means the system of registration for the District’s bonds and other obligations set forth in Resolution No. 1433.

“Treasurer” means the Treasurer of the District or any other officer who succeeds to substantially all of the responsibilities of that office specified in this resolution.

“2009B Bonds” means the \$3,660,000 aggregate principal amount of Water Revenue Bonds, 2009B (Taxable Build America Bonds—Direct Payment), of the District, issued pursuant to Resolution No. 2162-09, and currently outstanding in the aggregate principal amount of \$2,955,000.

“2016 Bond” means the \$6,300,000 principal amount Water Revenue Bond, 2016, of the District, issued pursuant to Resolution No. 2230-16, and currently outstanding in the principal amount of \$5,554,061.85.

“2017 Bond” means the \$4,200,000 principal amount Water Revenue Bond, 2017, of the District, issued pursuant to Resolution No. 2230-16, and currently outstanding in the principal amount of \$3,872,876.

“Variable Interest Rate Bond” means, for any period, any Parity Bond that bears interest at a rate that is not fixed and that is determined under the resolution authorizing its issuance.

Section 2. Findings and Determinations. The Commission takes note of the following facts and makes the following findings and determinations.

(a) The District now owns, maintains, and operates a water supply and distribution system, which from time to time requires various additions, betterments, and extensions.

(b) Pursuant to applicable law, including chapters 54.24, 39.44, 39.46, and 39.53 RCW, the District is authorized to issue a water revenue bond to carry out the Project, to carry out the Refunding Plan, and to pay the costs of issuance and sale of the Bond.

(c) The Commission deems it advisable that the District carry out the Project, specifies and adopts the Project as a system or plan within the meaning of RCW 54.24.020, and declares the estimated cost of the Project, as near as may be, to be \$12,500,000. For the purpose of providing the funds necessary to carry out the Project, the Commission finds that it is in the best interests of the District and its ratepayers to issue and sell the Bond to the Bank.

(d) Pursuant to Resolution No. 2162-09, the District issued the 2009B Bonds and reserved the option to redeem the outstanding 2009B Bonds prior to their stated maturity date at any time on or after July 1, 2019, as a whole or in part, at a price equal to the principal amount to be redeemed, without premium, plus accrued interest to the date fixed for redemption, upon notice given not less than 30 nor more than 60 days prior to the date fixed for redemption.

(e) Pursuant to Resolution No. 2230-16, the District previously issued the 2016 Bond and reserved the option to prepay the principal of the 2016 Bond at any time, as a whole or in part, at par plus accrued interest to the date of prepayment, upon notice given not less than five business days prior to the scheduled prepayment date.

(f) Pursuant to Resolution No. 2230-16, the District previously issued the 2017 Bond and reserved the option to prepay the principal of the 2017 Bond at any time, as a whole or in part, at par plus accrued interest to the date of prepayment, upon notice given not less than five business days prior to the scheduled prepayment date.

(g) The Commission finds that it is in the best interests of the District and its ratepayers to issue the Bond in order to carry out the Refunding Plan to modify reserve requirements and covenants and to effect a savings by the difference between the principal and interest cost over the life of the of principal of the Bond allocable to the Refunding Plan and the principal and interest cost over the life of the Refunded Bonds but for such refunding. The Commission further finds that the Refunding Plan will discharge and satisfy the obligations, pledges, charges, trusts, covenants, and agreements of the District under the Refunded Bond Resolutions with respect to the Refunded Bonds, and the Refunded Bonds will no longer be deemed to be outstanding under the Refunded Bond Resolutions immediately upon the deposit with the Refunding Trustee of the money specified in the Refunding Plan.

(h) The District intends to make (and/or, not more than 60 days before the date of adoption of this resolution, has made) expenditures, and reasonably expects to reimburse itself for those expenditures from proceeds of the Bond (in a principal amount not to exceed \$12,500,000), for the Project. The Commission has reviewed its existing and reasonably foreseeable budgetary and financial circumstances and has determined that the District



reasonably expects to reimburse itself for expenditures for the Project from proceeds of the Bond because the District has no funds available that already are, or are reasonably expected to be, reserved, allocated on a long-term basis, or otherwise set aside by the District for those expenditures on the Project. The District will not, within one year after the expected reimbursement, use amounts corresponding to proceeds received from the Bond issued to reimburse the District for previously paid expenditures for the Project in any manner that results in those amounts being treated as replacement proceeds of any tax-exempt bonds, i.e., as a result of being deposited in a reserve fund, pledged fund, sinking fund, or similar fund (other than a bona fide debt service fund) that is expected to be used to pay principal of or interest on tax-exempt bonds, nor will the District use those amounts in any manner that employs an abusive arbitrage device to avoid arbitrage restrictions.

(i) The Gross Revenue and benefits to be derived from the operation and maintenance of the System at the rates to be charged for services provided by the District will be more than sufficient to meet the Maintenance and Operating Expenses and to permit the setting aside into the Bond Fund out of the Gross Revenue amounts sufficient to pay the principal of and interest on the Bond when due. In maintaining the Bond Fund, the Commission has exercised due regard for Maintenance and Operating Expenses and the amounts to be paid into the Bond Fund, and the District has not obligated itself to set aside and pay into the Bond Fund a greater amount or proportion of the Gross Revenue than in the judgment of the Commission will be available over and above the Maintenance and Operating Expenses and the amount or proportion of Gross Revenue previously pledged.

Section 3. Authorization of the Bond. The District is authorized to borrow money and issue a water revenue bond evidencing indebtedness in the principal amount not to exceed \$25,000,000 to provide funds necessary to carry out the Project, to carry out the Refunding Plan, and to pay the costs of issuance and sale of the Bond.

Section 4. Description of the Bond. The Bond shall be dated the Issue Date; shall mature on July 1, 2039, subject to prior prepayment; shall be issued in fully registered form as to both principal and interest; and shall be numbered R-1, with any additional designation as the Registrar deems necessary for purposes of identification.

On the Issue Date, the District shall draw on the non-revolving line of credit evidenced by the Bond the principal amount required to carry out the Refunding Plan. Within 30 days after the Issue Date, the Bank shall provide the District with an amortization schedule for payments of principal of and interest on the Bond allocable to the Refunding Plan in amounts approximately equal to payment of principal of and interest on the Refunded Bonds through December 31, 2021. Interest on the outstanding principal of the Bond allocable to the Refunding Plan shall be payable semiannually on each January 1 and July 1, commencing July 1, 2020, and principal of the Bond allocable to the Refunding Plan shall be payable annually on each July 1, commencing July 1, 2020, all in accordance with the amortization schedules to be provided by the Bank.

On the Issue Date, and monthly thereafter, up to and including December 31, 2021, the District may draw on the non-revolving line of credit evidenced by the Bond any amount allocable to the Project, so long as the aggregate principal amount of all draws does not exceed \$25,000,000. On January 1, 2022, the District shall pay to the Bank all then accrued but unpaid

interest, and within 30 days thereafter, the Bank shall provide the District with an amortization schedule, based on the principal amount outstanding on January 1, 2022, for payments of all principal of and interest on the Bond (allocable to both the Refunding Plan and the Project) in approximately equal annual amounts through and including the maturity date of July 1, 2039. Interest on the outstanding principal of the Bond allocable to the Project shall be payable semiannually on each January 1 and July 1, commencing July 1, 2020, and principal of the Bond allocable to the Project shall be payable annually on each July 1, commencing July 1, 2022, all in accordance with the amortization schedules to be provided by the Bank.

Proceeds of each draw allocable to the Project shall be disbursed by the Bank subject to the delivery by the District to the Bank of a brief description of the purpose for such disbursement.

Subject to Section 9, outstanding principal of the Bond shall bear interest at the rate of two and sixty-five one-hundredths percent (2.65%) per annum, computed on the basis of the actual number of days elapsed in a 360-day year. Notwithstanding the foregoing, at any time that interest on the Bond is not excluded from gross income for federal income tax purposes, the principal of the Bond shall bear interest at the rate of four percent (4.00%) per annum.

All outstanding principal of and interest on the Bond shall be due and payable on July 1, 2039.

The Commission has determined it to be in the best interest of the District that the General Manager and the Treasurer each be, and each hereby is, individually authorized to draw on the non-revolving line of credit evidenced by the Bond as either of such officials may determine hereafter, those draws to be made in accordance with the terms and provisions set forth herein.

On the Issue Date, the District shall pay to the Bank a fee of \$25,000 and shall reimburse the Bank for the Bank's out-of-pocket legal expenses incurred in connection with the issuance and sale of the Bond. The District may reimburse itself for such fees and expenses from principal proceeds of the Bond.

Absent manifest error, the Bank's determination of amortization shall be conclusive and binding on the District.

Section 5. Registrar; Registration and Transfer of Bond.

(a) *Registration of Bond.* The Bond shall be issued only in registered form as to both principal and interest and the ownership of the Bond shall be recorded on the Bond Register.

(b) *Registrar; Duties.* The Treasurer is appointed as initial Registrar. The Registrar shall keep, or cause to be kept, sufficient books for the registration and transfer of the Bond, which shall be open to inspection by the District at all reasonable times. The Registrar is authorized, on behalf of the District, to deliver each Bond transferred or exchanged in accordance with the provisions of the Bond and this resolution, to serve as the District's paying agent for the Bond, and to carry out all of the Registrar's powers and duties under this resolution and the System of Registration.

(c) *Bond Register; Transfer and Exchange.* The Bond Register shall contain the name and mailing address and account of the Registered Owner and the principal amount of the Bond held by the Registered Owner. Prior to December 31, 2021, the Bond may be transferred only to a successor of the Bank, and after December 31, 2021, the Bond may be transferred only to a “qualified institutional buyer” (as defined in Rule 144A promulgated under the Securities Act of 1933, as amended). The Bond may be transferred only in whole and only if endorsed in the manner provided thereon and surrendered to the Registrar; provided, however, that the foregoing shall not preclude the Bank from selling participation interests in the Bond. Any exchange or transfer shall be without cost to the Registered Owner or transferee.

Section 6. Form and Execution of Bond. The Bond shall be prepared in a form consistent with the provisions of this resolution and State law. Each Bond shall be signed by the President and Secretary of the Commission, either or both of whose signatures may be manual or in facsimile. If any officer whose manual or facsimile signature appears on a Bond ceases to be an officer of the District authorized to sign bonds before the Bond bearing his or her manual or facsimile signature is authenticated by the Registrar, or issued or delivered by the District, the Bond nevertheless may be authenticated, issued, and delivered and, when authenticated, issued, and delivered, shall be as binding on the District as though the person had continued to be an officer of the District authorized to sign bonds. Any Bond also may be signed on behalf of the District by any person who, on the actual date of signing of the Bond, is an officer of the District authorized to sign bonds, although he or she did not hold the required office on the Issue Date.

Section 7. Payment of Bond. Principal of and interest on the Bond shall be payable in lawful money of the United States of America. Principal of and interest on the Bond are payable by electronic transfer on the payment date to the Registered Owner at the account appearing on the Bond Register. All payments shall be applied first to accrued interest and then to principal as of the date such payment is actually received by the Registered Owner. The final principal amount of the Bond is payable upon presentation and surrender of the Bond by the Registered Owner to the Registrar. The Bond is not subject to acceleration under any circumstances. The Bond shall be payable solely out of the Bond Fund and shall not be a general obligation of the District.

Section 8. Prepayment of Bond. Principal of the Bond is subject to prepayment at the option of the District at any time, as a whole or in part, at par plus accrued interest to the date of prepayment. Notice of prepayment of the Bond, unless waived by the Registered Owner, shall be given by the Registrar not less than five business days prior to the scheduled prepayment date by first-class mail, postage prepaid, to the Registered Owner at the address appearing on the Bond Register. The District retains the right to rescind the prepayment notice and the prepayment by giving a notice of rescission to the Registered Owner at any time on or prior to the scheduled prepayment date. Any notice of prepayment that is so rescinded shall be of no effect, and the principal amount of the Bond for which a notice of prepayment has been rescinded shall remain outstanding. Interest on principal of the Bond so prepaid shall cease to accrue on the prepayment date.

Section 9. Failure to Pay Principal. If any principal of the Bond is not paid when due, the District shall be obligated to pay interest on such principal amount past due and on the interest past due at the rate provided in the Bond plus five percent (5.00%) per annum from and

after the date such principal and interest payment is due until such principal and interest are paid in full.

Section 10. Application of Bond Proceeds; Construction Fund; Refunding Plan.

(a) *Construction Fund.* The principal proceeds of the Bond allocable to the Project shall be deposited in the Construction Fund and used to carry out the Project. Until needed to pay such costs, the District may invest such principal proceeds in any legal investment, and the investment earnings may be used to carry out the Project or for use in accordance with Section 14.

(b) *Appointment of Refunding Trustee.* U.S. Bank National Association is appointed as Refunding Trustee.

(c) *Acquisition of Acquired Obligations.* On the Issue Date, the proceeds of the Bond allocable to the Refunding Plan shall be deposited with the Refunding Trustee and used to discharge the obligations of the District relating to the Refunded Bonds by carrying out the Refunding Plan. To the extent practicable, such obligations may be discharged fully by the Refunding Trustee's simultaneous purchase of the Acquired Obligations, bearing such interest and maturing as to principal and interest in such amounts and at such times so as to provide, together with a beginning cash balance, if necessary, for the payment of the amount required to be paid by the Refunding Plan. The Acquired Obligations shall be listed and more particularly described in a schedule attached to the Refunding Trust Agreement. Any Bond proceeds or other money deposited with the Refunding Trustee and not needed to carry out the Refunding Plan shall be returned to the District for deposit in the Bond Fund to pay interest on the Bond on the first interest payment date.

(d) *Refunding Trust Agreement; Administration of Refunding Plan.* The General Manager shall execute and deliver a Refunding Trust Agreement setting forth the duties, obligations, and responsibilities of the Refunding Trustee in connection with the carrying out the Refunding Plan. The Refunding Trust Agreement shall, among other things, authorize and direct the Refunding Trustee to purchase the Acquired Obligations and to make the payments required to be made by the Refunding Plan. All Acquired Obligations and the money deposited with the Refunding Trustee and any income therefrom shall be held irrevocably, invested, and applied in accordance with the provisions of the Refunded Bond Resolutions, this resolution, chapter 39.53 RCW, and other applicable State law. All administrative costs (including all necessary and proper fees, compensation, and expenses of the Refunding Trustee and all other costs incidental to the setting up of the escrow to accomplish the Refunding Plan) and costs of issuing the Bond may be paid out of amounts deposited with the Refunding Trustee or other available money of the District, in accordance with the Refunding Trust Agreement.

(e) *Call for Redemption of the Refunded Bonds.* The General Manager shall call the Refunded Bonds for redemption on the Redemption Dates in accordance with the Refunded Bond Resolutions and this resolution. Such call for redemption shall identify the Refunded Bonds, the maturity dates, the Redemption Dates, and redemption price (expressed as a percentage of par, plus accrued interest), and shall be irrevocable after the Bond is delivered to the Bank. The General Manager shall give or cause to be given such notices as required, at the

times and in the manner required, pursuant to the Refunded Bond Resolutions, and to take all other actions necessary to effect the redemption of the Refunded Bonds on the Redemption Dates.

Section 11. Bond Fund. The Bond Fund has previously been established by Resolution No. 1583-93. The Bond Fund is divided into two accounts: a Principal and Interest Account and a Reserve Account. The District shall set aside and pay into the Bond Fund, out of Net Revenue, certain fixed amounts without regard to any fixed proportion, namely:

(a) Into the Principal and Interest Account the amounts necessary, taking into account other money on deposit therein, to pay the principal of and interest on the Parity Bonds when due; and

(b) Into the Reserve Account (except as otherwise expressly provided in this resolution) the amounts necessary, taking into account other money on deposit therein, to make the amount in the Reserve Account equal to the Reserve Requirement.

The District may provide for all or any part of the Reserve Requirement through Reserve Insurance, and the amount available to be drawn under any Reserve Insurance shall be credited against the Reserve Requirement.

Except as otherwise expressly provided in this resolution, the amount in the Reserve Account shall be maintained at the Reserve Requirement at all times. When the total amount in the Bond Fund equals the total amount of principal and interest due on all outstanding Parity Bonds, no further payment need be made into the Bond Fund.

If there is a deficiency in the Principal and Interest Account to pay when due the principal of or interest on any Parity Bond secured by the Reserve Account, the deficiency shall be made up from the Reserve Account first, by the withdrawal of money therefrom and second, by pro rata draws on each Reserve Insurance. Any deficiency in the Reserve Account resulting from a withdrawal or draw shall be made up within 12 months in approximately equal monthly installments in accordance with Section 14, first, to reinstate each Reserve Insurance, pro rata, and second, to make up any remaining deficiency. The money in the Reserve Account may be used to pay principal of and interest on the last outstanding Parity Bonds secured by the Reserve Account.

Money in the Bond Fund may be held uninvested or invested in legal investments. Earnings from investments in the Principal and Interest Account shall be retained therein. Earnings from investments in the Reserve Account shall be retained therein until the amount therein is equal to the Reserve Requirement and thereafter shall be credited to the Principal and Interest Account.

The Reserve Account shall be valued at least once each year, and may be valued more frequently, including upon the issuance, prepayment, redemption, or defeasance of Parity Bonds. In valuing the Reserve Account, Reserve Insurance shall be valued at the amount available to be drawn thereon, and all other investments shall be valued at market. Any excess in the Reserve Account resulting from a valuation may be withdrawn from the Reserve Account and credited to the Principal and Interest Account or used in accordance with Section 14. Any deficiency in the

Reserve Account resulting from a valuation shall be made up within six months in approximately equal monthly installments in accordance with Section 14.

The District may establish one or more separate reserve subaccounts for any or all Parity Bonds, and money in a reserve subaccount or Reserve Insurance credited to the reserve subaccount shall be used only to pay principal of and interest on the Parity Bonds secured by the reserve subaccount.

The District may provide for the purchase, prepayment, redemption, or defeasance of Parity Bonds by the use of money on deposit in any account in the Bond Fund so long as there is no deficiency in any account in the Bond Fund for the Parity Bonds that remain outstanding.

Notwithstanding any other provision of this Section, any investment earnings that are subject to a federal tax or rebate requirement may be withdrawn from the Bond Fund for deposit in a separate fund or account and used for that purpose.

If the District fails to set aside and pay into the Bond Fund the amounts set forth above, the registered owner of any outstanding Parity Bond may bring an action against the District to compel such setting aside and payment.

Section 12. Rate Stabilization Fund. The Rate Stabilization Fund is authorized to be created in the office of the Treasurer. The District may at any time, consistent with Section 14, deposit in the Rate Stabilization Fund Gross Revenue and any other money received by the System available to be used therefor, excluding principal proceeds of bonds or other obligations. The District may at any time withdraw money from the Rate Stabilization Fund for use in accordance with Section 14. Deposits into the Rate Stabilization Fund shall reduce Net Revenue for the year in which the deposit is made or, at the option of the District, for the preceding year if the deposit is made within three months after the end of the preceding year. Withdrawals from the Rate Stabilization Fund shall increase Net Revenue for the year in which the withdrawal is made or, at the option of the District, for the preceding year if the withdrawal is made within three months after the end of the preceding year.

Section 13. Pledge of Net Revenue and Lien Position of Parity Bonds. The Net Revenue is pledged to be paid into the Bond Fund at the times and in the manner required by this resolution for the payment of principal of and interest on the Parity Bonds when due. This pledge shall constitute a lien and charge upon such Net Revenue prior and superior to any other charges whatsoever and shall be valid and binding from the time this pledge is made. The Net Revenue so pledged and hereafter received by the District shall immediately be subject to the lien of this pledge without any physical delivery or further act, and the lien of this pledge shall be valid and binding as against any parties having claims of any kind in tort, contract, or otherwise against the District, irrespective of whether such parties have notice thereof. This resolution need not be recorded.

Section 14. Flow of Funds. The Gross Revenue shall be used for the following purposes only and shall be applied in the following order of priority:

- (a) To pay Maintenance and Operating Expenses when due;

- (b) To pay interest on Parity Bonds when due;
- (c) To pay principal of Parity Bonds when due, whether at maturity or pursuant to mandatory sinking fund prepayment or redemption;
- (d) To make payments when due under any reimbursement agreement entered into in connection with Bond Insurance;
- (e) To make required payments into the Reserve Account and to make payments when due under any reimbursement agreement entered into in connection with Reserve Insurance;
- (f) To make required payments into any revenue bond, note, warrant, or other revenue obligation fund, debt service account, or reserve account created to pay or secure the payment of any revenue bonds, notes, warrants, or other revenue obligations of the District secured by a lien and charge on Net Revenue subordinate to the lien and charge that secure payment of the Parity Bonds, in any priority that the District may establish by resolution; and
- (g) To retire by prepayment or redemption or purchase any outstanding revenue bonds, notes, warrants, or other revenue obligations of the District, to make necessary additions, betterments, improvements, extensions, and repairs and replacements of the System, to make deposits into the Rate Stabilization Fund, or for any other lawful System purposes, in any priority that the District may establish by resolution.

The District may transfer any money from any funds or accounts of the System legally available therefor to make payments required to be made into the Bond Fund.

Section 15. Covenants. The District covenants and agrees with the Registered Owner as follows:

(a) *Establishment and Collection of Rates and Charges.* The District will establish, maintain, and collect rates and charges for water service and for all other utility services that will be fair and equitable, and will adjust those rates and charges from time to time so that:

(1) The Gross Revenue will be sufficient to pay when due: (A) all Maintenance and Operating Expenses, (B) all amounts that the District is obligated to pay into the Bond Fund, including the payment of any amounts owing to a provider of Bond Insurance or Reserve Insurance, and (C) all taxes, assessments, or other governmental charges lawfully imposed on the System or payments in lieu thereof and any and all other amounts that the District may now or hereafter become obligated to pay from the Gross Revenue by law or contract; and

(2) The Net Revenue in each year will be not less than the Coverage Requirement.

The failure of the District to comply with the requirements of this subsection shall not be a default under this resolution or any resolution authorizing the issuance of Future Parity Bonds if the District promptly retains an Independent Utility Consultant to recommend to the

Commission adjustments in the rates and charges of the System necessary to satisfy the requirements of this subsection and the Commission adopts such recommendations within six months after the date the failure became known to the Commission.

(b) *Maintenance and Operation.* The District will at all times maintain and keep the System in good repair, working order, and condition, and will at all times operate the System and the business in connection therewith in an efficient manner and at a reasonable cost.

(c) *Sale or Disposition of the System.*

(1) The District will not sell or otherwise dispose of or permit the disposal of the System in its entirety (whether by operation of law or otherwise) unless, simultaneously with such sale or other disposition, all Parity Bonds are prepaid, redeemed, or defeased pursuant to the provisions of this resolution and each resolution authorizing the issuance of Future Parity Bonds.

(2) The District may, without making any deposit into the Bond Fund, sell or otherwise dispose of the Fidalgo Island Water System.

(3) The District may, without making any deposit into the Bond Fund, sell or otherwise dispose of any of the works, plant, properties, or facilities of the System or any real or personal property comprising a part of the System that has become unserviceable, inadequate, obsolete, or unfit to be used in the operation of the System, or no longer necessary, material to, or useful to the operation of the System.

(4) The District may, without making any deposit into the Bond Fund, sell or otherwise dispose of any of the works, plant, properties, or facilities of the System or any real or personal property comprising a part of the System in an aggregate amount not to exceed, in the year in which part of the System is sold or disposed of, five percent of the fair market value of the entire System immediately prior to such sale or disposition. (By way of illustration and without limiting the foregoing, if in year 10 the fair market value of the System is 10,000, the District may sell part of the System in year 10 with a fair market value not to exceed 500 without making any deposit into the Bond Fund, and if in year 11 the fair market value of System is 9,500, the District may sell part of the System in year 11 with a fair market value not to exceed 475 without making any deposit into the Bond Fund.)

(5) The District will not otherwise sell, lease, mortgage, or in any manner encumber or otherwise dispose of or permit the disposal of any part of the System (whether by operation of law or otherwise) that is used, useful, or material in the operation of the System, unless provision is made for the replacement thereof or for payment into the Bond Fund of the greatest of the following:

(A) An amount that bears the same proportion to the net amount of outstanding Parity Bonds (defined as the total amount of outstanding Parity Bonds less the amount of money in the Bond Fund) that the Gross Revenue for the preceding year from the portion of the System sold or disposed of bears to the total Gross Revenue for the preceding year; or



(B) An amount that bears the same proportion to the net amount of outstanding Parity Bonds (as defined above) that the Net Revenue for the preceding year from the portion of the System sold or disposed of bears to the total Net Revenue for the preceding year; or

(C) An amount that bears the same proportion to the net amount of outstanding Parity Bonds (as defined above) that the depreciated cost value of the facilities sold or disposed of bears to the depreciated cost value of the entire System immediately prior to such sale or disposition.

(d) *Books and Accounts.* The District will keep proper books, records, and accounts with respect to the operations, income, and expenditures of the System in accordance with generally accepted accounting practices relating to municipal utilities and any applicable rules and regulations prescribed by the State, and will cause those books, records, and accounts to be audited on a regular basis by the State Auditor or another independent certified public accountant. The District will prepare annual financial and operating statements as soon as practicable after the close of each fiscal year showing in reasonable detail the financial condition of the System as of the close of the fiscal year.

(e) *Insurance.* The District at all times will carry fire and extended coverage, public liability, property damage, and such other forms of insurance with responsible insurers and with policies payable to the District, on such of the buildings, equipment, works, plants, facilities, and properties of the System as are ordinarily carried by municipal or privately owned utilities engaged in the operation of similar systems, and against such claims for damages as are ordinarily carried by municipal or privately owned utilities engaged in the operation of similar systems, or the District will self-insure or will participate in an insurance pool or pools with reserves adequate, in the reasonable judgment of the District, to protect the System and the registered owners of the Parity Bonds against loss.

(f) *No Free Service.* Except in aid of the poor or infirm, the District will not furnish water service to any customer whatsoever free of charge, and the District shall promptly take such action as may be practicable to enforce collection of all collectible delinquent accounts.

(g) *Financial Reporting.* The District shall provide to the Registered Owner:

(1) on or prior to March 31 of each year, a copy of the adopted budget of the District for such year; and

(2) on or prior to November 30 of each year, a copy of the audited financial statements of the District for the prior year, including a calculation of the Coverage Requirement for the prior year.

Section 16. Future Parity Bonds. The District shall not issue any revenue bond, note, warrant, or other obligation evidencing indebtedness that is secured by a lien and charge on Net Revenue superior to the lien and charge that secure payment of the Parity Bonds. The District may issue Future Parity Bonds only if the following conditions are satisfied at the time of issuance:

(a) There is no deficiency in the Bond Fund and no default has occurred and is continuing under this resolution or any resolution authorizing the issuance of Future Parity Bonds.

(b) The resolution authorizing the issuance of the Future Parity Bonds provides for the payment of the principal thereof and interest thereon out of the Bond Fund.

(c) The resolution authorizing the issuance of the Future Parity Bonds provides for the satisfaction of the Reserve Requirement, if any, for the Future Parity Bonds.

(d) There has been delivered either:

(1) a certificate of the General Manager, demonstrating that during any twelve consecutive months out of the preceding 30 months Net Revenue was not less than 1.25 times Maximum Annual Debt Service for all Parity Bonds to be outstanding upon issuance of the Future Parity Bonds; or

(2) a certificate of an Independent Utility Consultant demonstrating that in his or her professional opinion the adjusted Net Revenue for any twelve consecutive months out of the preceding 30 months was not less than 1.25 times Maximum Annual Debt Service for all Parity Bonds to be outstanding upon issuance of the Parity Bonds. The Independent Utility Consultant's certificate, in estimating adjusted Net Revenue, may adjust Net Revenue to reflect:

(A) The additional Net Revenue that would have been received if any change in rates and charges adopted prior to the date of the certificate and subsequent to the beginning of the twelve-month period had been in force during the entire twelve-month period;

(B) The additional Net Revenue that would have been received if any facility of the System that became fully operational after the beginning of the twelve-month period had been fully operational during the entire twelve-month period;

(C) The additional Net Revenue that would have been received as a result of any additions, betterments, improvements, extensions, and repairs and replacements of the System that are (i) under construction on the date of the certificate or (ii) will be constructed from the proceeds of the Future Parity Bonds;

(D) The additional Net Revenue that would have been received if any customers added to the System after the beginning of the twelve-month period had been customers during the entire twelve-month period; and

(E) The additional Net Revenue that would have been received from any customers who have paid all required system development charges if they had been customers during the entire twelve-month period.

Certification of coverage of debt service on Future Parity Bonds issued for the purpose of refunding outstanding Parity Bonds is not required if the Annual Debt Service on the Future Parity Bonds is not more than the Annual Debt Service on the Parity Bonds to be refunded in each year that the Future Parity Bonds are scheduled to remain outstanding.

Nothing in this Section prevents the District from issuing Future Parity Bonds to refund maturing Parity Bonds then outstanding, money for the payment of which is not otherwise available.

Nothing in this Section prevents the District from issuing any revenue bond, note, warrant, or other revenue obligation secured by a lien and charge on Net Revenue subordinate to the lien and charge that secure payment of the Parity Bonds.

Section 17. Separate Utility Systems. The District may create, acquire, construct, finance, own, and operate one or more additional systems for wastewater, stormwater, or water supply, collection, transmission, or treatment, or other commodity or service (each, a "Separate Utility System"). The revenue of a Separate Utility System shall not be included in Gross Revenue and may be pledged to the payment of revenue obligations issued to purchase, construct, condemn, or otherwise acquire or expand the Separate Utility System. Neither the Gross Revenue nor the Net Revenue shall be pledged to the payment of any obligations of a Separate Utility System except (a) as a Contract Resource Obligation in accordance with Section 18 or (b) with respect to the Net Revenue, on a basis subordinate to the lien and charge on Net Revenue that secure payment of the Parity Bonds.

Section 18. Contract Resource Obligations. The District may enter into one or more contracts or other obligations for the acquisition of wastewater, stormwater, or water supply, collection, transmission, or treatment, or other commodity or service relating to the System. The District may determine that such contract or other obligation is a Contract Resource Obligation, and may provide that all payments under the Contract Resource Obligation (including payments prior to the time the commodity or service becomes available and payments when the commodity or service has been suspended or terminated) shall be Maintenance and Operating Expenses if the following requirements are satisfied at the time the Contract Resource Obligation is entered into:

(a) No default has occurred and is continuing under this resolution or any resolution authorizing the issuance of Future Parity Bonds;

(b) An Independent Utility Consultant has delivered a certificate stating that (1) the payments to be made by the District in connection with the Contract Resource Obligation are

reasonable for the commodity or service being provided; (2) the acquisition of the commodity or service is technically and economically feasible in accordance with prudent utility practice, and is likely to become available no later than the date set forth in the certificate; and (3) the Net Revenue (taking into consideration the payments estimated to be required under the Contract Resource Obligation) for the five years following the year in which the Contract Resource Obligation becomes effective, as such Net Revenue is estimated by the Independent Utility Consultant (such estimate being based on factors deemed by the Independent Utility Consultant to be reasonable), will be not less than the Coverage Requirement; and

(c) The payments required to be made under the Contract Resource Obligation are not subject to acceleration.

Nothing in this Section prevents the District from entering into other agreements for the acquisition of wastewater, stormwater, or water supply, collection, transmission, or treatment, or other commodity or service from existing facilities and from treating payments for such commodity or service as Maintenance and Operating Expenses. Nothing in this Section prevents the District from entering into other agreements for the acquisition of wastewater, stormwater, or water supply, collection, transmission, or treatment, or other commodity or service from facilities to be constructed and from agreeing to make payments with respect thereto so long as the payments for such commodity or service are secured by a lien and charge on Net Revenue subordinate to the lien and charge that secure payment of the Parity Bonds.

Section 19. Tax Matters.

(a) *Preservation of Tax Exemption for Interest on Bond.* The District will take all actions necessary to prevent interest on the Bond from being included in gross income for federal income tax purposes, and it will neither take any action nor make or permit any use of proceeds of the Bond or other funds of the District treated as proceeds of the Bond that will cause interest on the Bond to be included in gross income for federal income tax purposes. The District will, to the extent the arbitrage rebate requirements of Section 148 of the Code are applicable to the Bond, take all actions necessary to comply (or to be treated as having complied) with those requirements in connection with the Bond.

(b) *Post-Issuance Compliance.* The Treasurer is authorized and directed to review, update, and implement the District's written procedures to facilitate compliance by the District with the covenants in this Section and the applicable requirements of the Code that must be satisfied after the Issue Date to prevent interest on the Bond from being included in gross income for federal tax purposes.

Section 20. Sale and Delivery of the Bond. The Bank has presented the Bank Proposal to the District offering to purchase the Bond, which written Bank Proposal is on file with the Treasurer. The Commission finds that accepting the Bank Proposal is in the District's best interest and authorizes the General Manager to accept the offer contained therein and to execute and deliver the same. The Bond will be prepared at District expense and will be delivered to the Bank in accordance with the terms of the Bank Proposal and this resolution, together with the approving legal opinions of Bond Counsel regarding the issuance of the Bond. The proper District officials are authorized and directed to do everything necessary for the

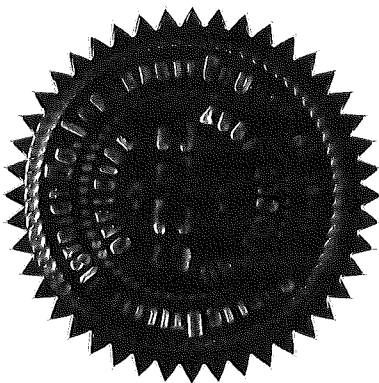
prompt delivery of the Bond to the Bank and for the proper application and use of the proceeds of the sale thereof.

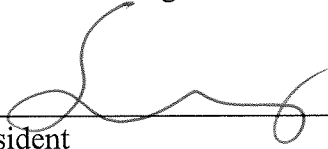
Section 21. General Authorization and Ratification. The President of the Commission, Secretary of the Commission, General Manager, and Treasurer are each individually authorized to take such actions and to execute such documents as in their judgment may be necessary or desirable to carry out the transactions contemplated in connection with this resolution, and to do everything necessary for the prompt delivery of the Bond to the Bank and for the proper application, use, and investment of the proceeds of the Bond. All actions taken prior to the effective date of this resolution in furtherance of the purposes described in this resolution and not inconsistent with the terms of this resolution are ratified and confirmed in all respects.

Section 22. Severability. The provisions of this resolution are declared to be separate and severable. If a court of competent jurisdiction, all appeals having been exhausted or all appeal periods having run, finds any provision of this resolution to be invalid or unenforceable as to any person or circumstance, such offending provision shall, if feasible, be deemed to be modified to be within the limits of enforceability or validity. If the offending provision cannot be so modified, it shall be null and void with respect to the particular person or circumstance, and all other provisions of this resolution in all other respects, and the offending provision with respect to all other persons and all other circumstances, shall remain valid and enforceable.

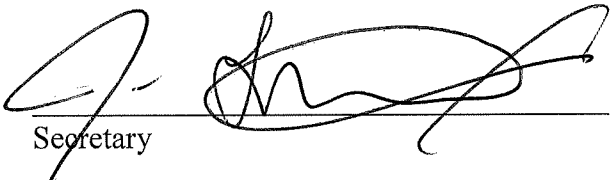
Section 23. Effective Date. This resolution shall take effect and be in force immediately upon its adoption.

ADOPTED by the Commission of Public Utility District No. 1 of Skagit County, Washington, at the continuation of a regular open public meeting thereof this 21st day of January, 2020, the following Commissioners being present and voting.



  
\_\_\_\_\_  
President

  
\_\_\_\_\_  
Vice President

  
\_\_\_\_\_  
Secretary

## CERTIFICATION

I, the undersigned, Secretary of the Commission (the "Commission") of Public Utility District No. 1 of Skagit County, Washington (the "District"), hereby certify as follows:

1. The attached copy of Resolution No. 2272-20 (the "Resolution") is a full, true, and correct copy of a resolution duly adopted at the continuation of a regular meeting of the Commission held at the regular meeting place thereof on January 21, 2020, as that resolution appears on the minute book of the District; and the Resolution is now in full force and effect;

2. All members of the Commission were absent from the regular meeting and I caused the regular meeting of the Commission held on January 14, 2020, to be adjourned and continued to a time and place specified in the order of adjournment (cancellation) and continuance of meeting, a true and complete copy of which is attached hereto;

3. Immediately after the time of the adjournment, I caused a written copy of the order of adjournment (cancellation) and continuance of meeting to be conspicuously posted on or near the door of the place where the adjourned meeting was held;

4. At least 24 hours before the time set for resuming the adjourned and continued meeting, written notice specifying the time and place of the meeting and the business to be transacted, a true and complete copy of which is attached hereto, was provided as follows:

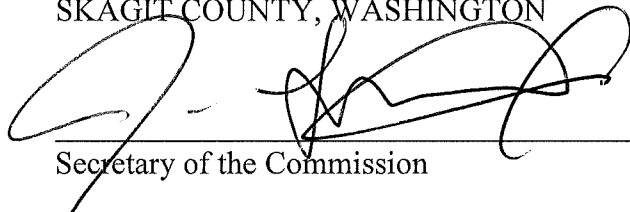
- a. Given to all members of the Commission by mail, fax, electronic mail, or personal delivery;
- b. Prominently displayed at the main entrance of the District office; and
- c. Posted on the District's web site;

5. Written notice of the adjourned (cancelled) and continued meeting was given to each local radio or television station and to each newspaper of general circulation that has on file with the District a written request to be notified of special, adjourned, or continued meetings and to any others to which such notices are customarily given by the District; and

6. A quorum of the members of the Commission was present throughout the meeting and a majority of those members present voted in the proper manner for the adoption of the Resolution.

IN WITNESS WHEREOF, I have hereunto set my hand this 21st day of January, 2020.

PUBLIC UTILITY DISTRICT NO. 1 OF  
SKAGIT COUNTY, WASHINGTON



---

Secretary of the Commission