

PORT OF PORT TOWNSEND, WASHINGTON

RESOLUTION NO. 595-13

A RESOLUTION OF THE PORT COMMISSION OF THE PORT OF PORT TOWNSEND, WASHINGTON, PROVIDING FOR THE ISSUANCE AND SALE OF A JUNIOR LIEN REVENUE BOND OF THE PORT IN THE PRINCIPAL AMOUNT OF \$807,000 TO PROVIDE FUNDS TO ACQUIRE, CONSTRUCT AND EQUIP A NEW PORT ADMINISTRATION BUILDING AND TO PAY COSTS OF ISSUANCE; PROVIDING THE FORM, TERMS OF THE BOND; AND APPROVING THE SALE OF THE BOND TO CASHMERE VALLEY BANK.

ADOPTED: MAY 8, 2013

PREPARED BY:

K&L GATES LLP
SEATTLE, WASHINGTON

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* This Table of Contents and the cover page are not a part of the following resolution and are included only for the convenience of the reader.

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WHEREAS, the Port of Port Townsend, Washington (the "Port") has determined to acquire, construct and equip a new Port administration building located in the city of Port Townsend (the "Project"); and

WHEREAS, the Port has issued and currently has outstanding its revenue bonds pursuant to Resolution No. 442-05, adopted on March 16, 2005 (the "2005 Bond Resolution") its Revenue Bonds, 2005, issued under date of March 30, 2005 in the original principal amount of \$4,455,000 and currently outstanding in the principal amount of \$1,700,000 (and having a final maturity of November 1, 2016) (the "Outstanding Senior Lien Bonds"); and

WHEREAS, the 2005 Bond Resolution authorizing the issuance of the Outstanding Senior Lien Bonds permits the Port to issue its revenue obligations having a lien on Net Revenues (as such term is defined in the 2005 Bond Resolution) subordinate to the lien thereon of the Outstanding Senior Lien Bonds; and

WHEREAS, in order to finance the costs of the Project, the Port shall issue a junior lien revenue bond in the principal amount of \$807,000 (the "Bond"); and

WHEREAS, the Port has received an offer from Cashmere Valley Bank to make a loan and acquire a junior lien revenue bond having a lien on Net Revenues for the repayment thereof

subordinate to the lien on such Net Revenues for the repayment of the Outstanding Senior Lien Bonds, which offer this Commission finds to be in the best interests of the Port;

NOW, THEREFORE, BE IT RESOLVED BY THE PORT COMMISSION OF THE PORT OF PORT TOWNSEND, WASHINGTON, as follows:

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

Accreted Value means (1) with respect to any Capital Appreciation Bonds, as of any date of calculation, the sum of the amount set forth in the resolution authorizing their issuance as the amount representing the initial principal amount of such Capital Appreciation Bonds plus the interest accumulated, compounded and unpaid thereon as of the most recent compounding date, or (2) with respect to Original Issue Discount Bonds, as of the date of calculation, the amount representing the initial public offering price of such Original Issue Discount Bonds plus the amount of discounted principal which has accreted since the date of issue. In each case, the Accreted Value shall be determined in accordance with the provisions of the resolution authorizing the issuance of such Balloon Maturity Bonds.

Annual Debt Service means the total amount of Debt Service for any Parity Bond or series of Parity Bonds or other evidences of indebtedness payable from Net Revenues in any fiscal year or Base Period.

Available Revenues mean Net Revenues available after the payment of debt service on the Outstanding Senior Lien Bonds.

Balloon Maturity Bonds means any evidences of indebtedness of the Port payable from Net Revenues that are so designated in the resolution pursuant to which such indebtedness is incurred.

Bank means Cashmere Valley Bank, Cashmere, Washington and any business successor thereto.

Base Period means any consecutive 12-month period selected by the Port out of the 30-month period next preceding the date of issuance of an additional series of Future Parity Bonds; provided, however, that the Port shall select, if audited financial statements are available, the most recent 12-month period for which audited financial statements are available.

Bond means the Port of Port Townsend, Washington, Junior Lien Revenue Bond, 2013, in the principal amount of \$807,000, issued pursuant to this resolution.

Bond Purchase Offer means the written offer of the Bank to the Port dated May 8, 2013, which by this reference is incorporated herein and is attached as Exhibit A.

Bond Register means the registration books showing the name, address and tax identification number of the registered owner of the Bond.

Bond Registrar means The Bank of New York Mellon, the fiscal agency of the State of Washington whose duties include registering and authenticating the Bond, maintaining the Bond Register, transferring ownership of the Bond, and paying the principal of the Bond. The term **Bond Registrar** also shall include any successor Bond Registrar appointed by the Treasurer as permitted by law.

Capital Appreciation Bonds means any Future Parity Bonds all or a portion of the interest on which is compounded, accumulated and payable only upon redemption or on the maturity date of such Capital Appreciation Bonds. If so provided in the resolution authorizing their issuance, Future Parity Bonds may be deemed to be Capital Appreciation Bonds for only a portion of their term. On the date on which Future Parity Bonds no longer are Capital

Appreciation Bonds, they shall be deemed outstanding in a principal amount equal to their Accreted Value.

Code means the federal Internal Revenue Code of 1986 as amended from time to time, and the applicable regulations thereunder.

Commission means the Port Commission, as general legislative authority of the Port as the same shall be duly and regularly constituted from time to time.

Credit Facility means either Qualified Insurance or a Qualified Letter of Credit.

Debt Service means, for any period of time,

(1) with respect to any outstanding Original Issue Discount Bonds or Capital Appreciation Bonds which are not designated as Balloon Maturity Bonds in the resolution authorizing their issuance, the principal amount thereof shall be equal to the Accreted Value thereof maturing or scheduled for redemption in such period, and the interest payable during such period;

(2) with respect to any outstanding Fixed Rate Bonds, an amount equal to (A) the principal amount of such Fixed Rate Bonds due or subject to mandatory redemption during such period and for which no sinking fund installments have been established, (B) the amount of any payments required to be made during such period into any sinking fund established for the payment of any such Fixed Rate Bonds, plus (C) all interest payable during such period on any such outstanding Fixed Rate Bonds and with respect to Fixed Rate Bonds with mandatory sinking fund requirements, calculated on the assumption that mandatory sinking fund installments will be applied to the redemption or retirement of such Fixed Rate Bonds on the date specified in the resolution authorizing such Fixed Rate Bonds; and

(3) with respect to all other series of Parity Bonds, other than Fixed Rate Bonds, Original Issue Discount Bonds or Capital Appreciation Bonds, specifically including but not limited to Balloon Maturity Bonds and Parity Bonds bearing variable rates of interest, an amount for any period equal to the amount which would have been payable for principal and interest on such Parity Bonds during such period computed on the assumption that the amount of Parity Bonds as of the date of such computation would be amortized (i) in accordance with the mandatory redemption provisions, if any, set forth in the resolution authorizing the issuance of such Parity Bonds, or if mandatory redemption provisions are not provided, during a period commencing on the date of computation and ending on the date 30 years after the date of issuance (ii) at an interest rate equal to the yield to maturity set forth in the 40-Bond Index published in the edition of *The Bond Buyer* (or comparable publication or such other similar index selected by the Port) and published within ten days prior to the date of calculation or, if such calculation is being made in connection with the certificate required by Section 12 of this resolution, then within ten days of such certificate, (iii) to provide for essentially level annual debt service of principal and interest over such period. Debt Service shall be net of any interest funded out of Bond proceeds. Debt Service shall include reimbursement obligations to providers of Credit Facilities to the extent authorized by resolution.

Designated Port Representative means the Director of Finance of the Port.

Facilities mean all property, real and personal, or any interest therein and whether improved or unimproved now or hereafter (for as long as any Parity Bonds shall be outstanding) owned, operated, used, leased or managed by the Port.

Fixed Rate Bonds means those Parity Bonds other than Capital Appreciation Bonds, Original Issue Discount Bonds or Balloon Maturity Bonds issued under a resolution in which the

rate of interest on such Parity Bonds is fixed and determinable through their final maturity or for a specified period of time. If so provided in the resolution authorizing their issuance, Parity Bonds may be deemed to be Fixed Rate Bonds for only a portion of their term.

Future Parity Bonds means any additional and/or refunding revenue bonds or revenue warrants issued subsequent to the issuance of the Bond in accordance with the applicable covenants in this resolution that will have a lien upon the Gross Revenue of the Port for the payment of all of the principal thereof and interest thereon equal to and on a parity with the lien created by this resolution upon such Gross Revenue for the payment of principal of and interest on the Bond.

Gross Revenue means all income and revenue derived by the Port from time to time from any source whatsoever including interest earnings thereon except:

- (1) the proceeds of any borrowing by the Port and the earnings thereon (other than earnings on proceeds deposited in reserve funds);
- (2) income and revenue which may not legally be pledged for revenue bond debt service;
- (3) federal grants or substitutes therefor allocated to capital projects;
- (4) payments made under Credit Facilities issued to pay or secure the payment of a particular series of Parity Bonds;
- (5) proceeds of insurance or condemnation proceeds other than business interruption insurance;
- (6) income and revenue of the Port separately pledged and used by it to pay and secure the payment of the principal of and interest on any issue or series of Special Revenue Bonds of the Port issued to acquire, construct, equip, install or improve part or all of the

particular facilities from which such income and revenue are derived, provided that nothing in this subparagraph (6) shall permit the withdrawal from Gross Revenue of any income or revenue derived or to be derived by the Port from any income producing facility which shall have been contributing to Gross Revenue prior to the issuance of such Special Revenue Bonds; and

(7) income from investments irrevocably pledged to the payment of bonds issued or to be refunded under any refunding bond plan of the Port.

In addition, the Port may, at its option designate any additional source of money as Gross Revenue for any one or more series of Parity Bonds issued under a future bond resolution.

Interest Rate means a rate of 2.20% per annum to and including October 31, 2016, and a rate of 3.00% per annum beginning on November 1, 2016 and thereafter until maturity or redemption of the Bond.

Junior Lien Bond Fund means the Port of Port Townsend Junior Lien Revenue Bond Fund, authorized to be created in the office of the Treasurer.

Letter of Representations means a blanket issuer letter of representations from the Port to DTC.

Maximum Annual Debt Service means highest dollar amount of Annual Debt Service in any fiscal year or Base Period for all outstanding Parity Bonds and Future Parity Bonds and/or for all subordinate lien evidences of indebtedness secured by Net Revenues, as the context requires.

Moody's means Moody's Investors Service, its successors and their assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, Moody's shall be deemed to refer to any other nationally recognized securities rating agency designated by the Port.

Net Revenues means Gross Revenue less any part thereof that must be used to pay Operating Expenses.

Operating Expenses means the current expenses incurred for operation or maintenance of the Facilities (other than Special Facilities), as defined under generally accepted accounting principles, in effect from time to time, excluding any allowances for depreciation or amortization or interest on any obligations of the Port incurred in connection with and payable from Gross Revenue. (For purposes of this resolution, general tax levies shall be deemed to be applied to such costs.)

Original Issue Discount Bonds means Parity Bonds which are sold at an initial public offering price of less than 95% of their face value and which are specifically designated as Original Issue Discount Bonds in the resolution authorizing their issuance.

Outstanding Senior Lien Bonds means the Port of Port Townsend, Washington, Revenue Refunding Bonds, 2005 issued pursuant to Resolution No. 442-05 adopted on March 16, 2005, outstanding in the aggregate principal amount of \$1,700,000.

Parity Bonds means the Bond and any Future Parity Bonds.

Port means the Port of Port Townsend, Washington, a municipal corporation duly organized and existing under and by virtue of the Constitution and laws of the State of Washington.

Private Person means any natural person engaged in a trade or business or any trust, estate, partnership, association, company or corporation.

Private Person Use means the use of property in a trade or business by a Private Person if such use is other than as a member of the general public. Private Person Use includes ownership of the property by the Private Person as well as other arrangements that transfer to the Private

Person the actual or beneficial use of the property (such as a lease, management or incentive payment contract or other special arrangement) in such a manner as to set the Private Person apart from the general public. Use of property as a member of the general public includes attendance by the Private Person at municipal meetings or business rental of property to the Private Person on a day-to-day basis if the rental paid by such Private Person is the same as the rental paid by any Private Person who desires to rent the property. Use of property by nonprofit community groups or community recreational groups is not treated as Private Person Use if such use is incidental to the governmental uses of property, the property is made available for such use by all such community groups on an equal basis and such community groups are charged only a *de minimis* fee to cover custodial expenses.

Project means the acquisition, construction and equipping of a new Port Administration Building located in the city of Port Townsend.

Project Fund means the special fund of the Port designated as the Port of Port Townsend Administration Building Fund – 2013, or otherwise as provided by Section 10 of this resolution.

Qualified Insurance means any non-cancelable 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 Categories by both Moody's and S&P.

Qualified Letter of Credit means any irrevocable letter of credit issued by a financial institution for the account of the Port on behalf of registered owners of the Outstanding Senior Lien 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 three highest Rating Categories by either Moody's and S&P.

Rate Covenant means Net Revenues in each fiscal year of the Port at least equal to 125% of the amounts required in such fiscal year to be paid as scheduled debt service (including mandatory redemption of Term Bonds, principal and interest) on the Outstanding Senior Lien Bonds and the Bond, excluding capitalized interest and debt service paid from refunding accounts.

Rating Agency means Moody's or S&P.

Rating Category means the generic rating categories of the Rating Agency, without regard to any refinement or gradation of such rating category by a numerical modifier or otherwise.

Revenue Fund means the Port of Port Townsend Revenue Fund heretofore established in the office of the Treasurer.

S&P means Standard & Poor's, a Division of The McGraw-Hill Companies, Inc., its successors and their assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, S&P shall be deemed to refer to any other nationally recognized securities rating agency designated by the Port.

Special Facilities means particular facilities financed with the proceeds of Special Revenue Bonds.

Special Revenue Bonds means any issue of revenue bonds, revenue warrants or other revenue obligations of the Port issued to directly or indirectly acquire (by purchase, lease or otherwise), construct, equip, install or improve part or all of particular facilities and which are payable from and secured by the income and revenue from such facilities.

Treasurer means the Treasurer of Jefferson County, as *ex officio* Treasurer of the Port, or any successor to the functions of such Treasurer.

Rules of Interpretation. In this resolution, unless the context otherwise requires:

(a) The terms “hereby,” “hereof,” “hereto,” “herein,” “hereunder” and any similar terms, as used in this resolution, refer to this resolution as a whole and not to any particular article, section, subdivision or clause hereof, and the term “hereafter” shall mean after, and the term “heretofore” shall mean before, the date of this resolution;

(b) Words of the masculine gender shall mean and include correlative words of the feminine and neuter genders and words importing the singular number shall mean and include the plural number and vice versa;

(c) Words importing persons shall include firms, associations, partnerships (including limited partnerships), trusts, corporations and other legal entities, including public bodies, as well as natural persons;

(d) Any headings preceding the text of the several articles and Sections of this resolution, and any table of contents or marginal notes appended to copies hereof, shall be solely for convenience of reference and shall not constitute a part of this resolution, nor shall they affect its meaning, construction or effect; and

(e) All references herein to “articles,” “sections” and other subdivisions or clauses are to the corresponding articles, sections, subdivisions or clauses hereof.

Section 2. Authorization of Bond and Bond Terms. For the purpose of paying all or a portion of the cost of the Project, the Port shall issue its junior lien revenue bond in the aggregate principal amount of \$807,000 (the “Bond”). The Bond shall be a junior lien revenue obligation of the Port, payable solely from Available Revenues. The Bond shall be designated as the

"Port of Port Townsend, Washington, Junior Lien Revenue Bond, 2013," shall be dated as of the date of its delivery to the Bank, shall be fully registered as to both principal and interest, shall be issued as a single fully registered bond, and shall be numbered in such manner and with any additional designation as the Bond Registrar deems necessary for purposes of identification.

The Bond shall bear interest on unpaid principal from its date or the most recent date to which interest has been paid at the Interest Rate. Interest shall be calculated on the basis of a year of 360 days consisting of 12 months of 30 days. Payments of interest only shall be made on May 1 and November 1, beginning on November 1, 2013. Beginning on May 1, 2017, the Bond shall be repaid in approximately equal installments, including principal and interest, semiannually on each May 1 and November 1, beginning May 1, 2017, with the final payment of all outstanding principal, together with interest thereon, on the maturity date of the Bond, due on November 1, 2018.

The Bond shall be an obligation only of the Junior Lien Bond Fund and shall be payable and secured as provided herein. The Bond shall be payable solely from Available Revenues. The Bond is not a general obligation of the Port and does not constitute an indebtedness of the Port within the meaning of the constitutional provisions and limitations of the State of Washington.

Section 3. Registration and Payments.

(a) *Registrar/Bond Register.* The Port hereby requests that the Treasurer adopt the system of registration approved by the Washington State Finance Committee, which utilizes the fiscal agency of the State of Washington in New York, New York, as registrar, authenticating agent, paying agent and transfer agent (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 (the "Bond Register"), which shall be open to inspection by the Port. The Bond Registrar is authorized, on behalf of the Port, to authenticate and deliver the Bond transferred or exchanged in accordance with the provisions of such Bond and this ordinance 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 Bond.

(b) *Registered Ownership.* The Port and the Bond Registrar may deem and treat the Registered Owner of the Bond as the absolute owner for all purposes, and neither the Port nor the Bond Registrar shall be affected by any notice to the contrary. Payment of the Bond shall be made only as described in Section 3 hereof, but such registration may be transferred as herein provided. All such payments made as described in Section 3 shall be valid and shall satisfy the liability of the Port upon the Bond to the extent of the amount or amounts so paid.

(c) *Transfer or Exchange of Registered Ownership.* The Bond may be transferred only in whole and only if endorsed in the manner provided therein and surrendered to the Bond Registrar. The Bank will not transfer the Bond to a subsequent investor unless the Bank causes such investor to receive such information regarding the Port and the Bond as is necessary to comply with applicable securities laws.

(d) *Registration Covenant.* The Port covenants that, until the Bond has been surrendered and canceled, it will maintain a system for recording the ownership of the Bond that complies with the provisions of Section 149 of the Code.

(e) *Place and Medium of Payment.* Principal of the Bond shall be payable in lawful money of the United States of America. Upon payment of the final installment of principal of the

Bond, the Bond shall be presented and surrendered by the Registered Owner at the principal office of the Bond Registrar for cancellation.

Section 4. Prepayment. The Port reserves the right to prepay principal of the Bond in advance of the scheduled payments, in whole or in part, at any time, with no prepayment penalty. The Port will notify the Bond Registrar and the Bank at least 15 days in advance of its intent to prepay.

Section 5. Junior Lien Bond Fund. A special fund of the Port designated as the "Junior Lien Revenue Bond Fund" (the "Junior Lien Bond Fund") is hereby authorized to be established in the office of the Treasurer, which Fund is to be drawn upon for the sole purpose of paying the principal of and interest on the Bond.

As long as the Bond remains outstanding, the Port hereby irrevocably obligates and binds itself to set aside and pay from the Revenue Fund into the Junior Lien Bond Fund amounts necessary to pay when due the interest on or principal of the Bond. Said amounts so pledged to be paid into the Junior Lien Bond Fund out of the Revenue Fund are hereby declared to be a lien and charge upon all the money in the Revenue Fund junior and inferior to the lien and charge thereon of the Outstanding Senior Lien Bonds and superior to all other charges of any kind or nature, subject only to the Operating Expenses.

Section 6. Priority of Use of Gross Revenue. There has previously been established in the office of the Treasurer of the Port a special fund of the Port known as the "Port of Port Townsend Revenue Fund" (the "Revenue Fund"). The Gross Revenue shall be deposited in the Revenue Fund as collected. The Revenue Fund shall be held separate and apart from all other funds and accounts of the Port and the Gross Revenue deposited therein shall be used only for the following purposes and in the following order of priority:

First, to pay Operating Expenses not paid from other sources;

Second, to make all payments, including sinking fund payments, required to be made into the debt service account(s) of any bond redemption fund to pay the principal of and interest and premium, if any, on the Outstanding Senior Lien Bonds;

Third, to make all payments required to be made into any reserve account(s) to secure the payment of the Outstanding Senior Lien Bonds including amounts required to reinstate any surety bond and to pay amounts owing to the issuer of a Credit Facility , if any;

Fourth, to make all payments required to be made into the Junior Lien Bond Fund to pay and secure the payment of the principal of and interest on the Bond; and

Fifth, to retire by redemption or purchase any outstanding revenue bonds or other revenue obligations of the Port as authorized in the various resolutions of the Commission authorizing their issuance or to make necessary additions, betterments, improvements and repairs to or extension and replacements of the Facilities, or any other lawful Port purposes.

Section 7. Specific Covenants. The Port hereby covenants and agrees with the owner and holder of the Bond, for as long as the same remain outstanding, as follows:

(a) *Payment of Debt Service.* The Port shall duly and punctually pay or cause to be paid out of the Junior Lien Bond Fund the principal of and interest on the Bond at the times and places provided in this resolution and in said Bond; it shall faithfully do and perform and at all times observe any and all covenants, undertakings and provisions contained in this resolution and in the Bond; and it will enforce all provisions of leases of Port property, the revenue from which is a part of Gross Revenue of the Port.

(b) *Maintenance of Facilities.* The Port shall at all times keep and maintain or cause to be kept and maintained all of its Facilities in good repair, working order and condition, and

shall at all times operate the same or keep and maintain the operating of the same and the business in connection therewith in an efficient manner and at a reasonable cost.

(c) *Rate Covenant.* The Port shall at all times establish, maintain and collect rentals, tariffs, rates and charges for the lease, license, use and operations of all of its business and Facilities that will produce Net Revenue, which each year will be equal to at least the Rate Covenant.

(d) *Books and Records.* The Port shall keep and maintain proper books of account and accurate records of all of its revenue received from any source whatsoever and of all costs of administration and maintenance and operation of all of its business and Facilities and will cause biennial audits of its entire business operations to be made.

(e) *Disposition of Facilities.* The Port will not sell or otherwise dispose of the Facilities in their entirety unless simultaneously with such sale or other disposition, provision is made for the payment into the Junior Lien Bond Fund of cash or Government Obligations sufficient together with interest to be earned thereon to pay the principal of and interest on the Bond, nor will it sell or otherwise dispose of any useful Facilities unless (1) such properties are replaced with properties that produce approximately the same amount of revenue as the properties disposed of or (2) provision is made for payment into the Junior Lien Bond Fund of the greater of:

(A) An amount that will be in the same proportion to the net amount of the Bond then outstanding that the Available Revenues from the Facilities sold or disposed of for the preceding year bears to the total Available Revenues for such period; or

(B) An amount that will be in the same proportion to the net principal amount of the Bond then outstanding that the book value of the Facilities sold or disposed of bears to the book value of the Facilities in their entirety immediately prior to such sale or disposition.

The proceeds of any such sale or disposition of any Facilities (to the extent required above) shall be paid into the Junior Lien Bond Fund.

Notwithstanding any other provision of this subsection, the Port may sell or otherwise dispose of any of the Facilities comprising less than 4% of the net plant value of the Facilities in their entirety or which shall have become unserviceable, inadequate, obsolete or unfit to be used in the operation of the Facilities, or no longer necessary, material to or useful in such operation, without making any deposit into the Junior Lien Bond Fund.

(f) *Insurance.* The Port shall either (i) self-insure, to the extent that the Port determines reasonable, or (ii) insure as needed and to the extent insurance coverage is available at reasonable cost with responsible insurers any Facilities that produce material amounts of revenue and the operation thereof, with policies payable to the Port, against the risks of direct physical loss, damage to or destruction of such Facilities, or any part thereof, and against accidents, casualties or negligence, including liability insurance and employer's liability, at least to the extent that similar insurance is usually carried by municipalities operating like properties.

(g) *Limitation on Additional Revenue Obligations.* The Port covenants that it will not issue any additional debt secured by Net Revenues while the Bond remains outstanding.

Section 8. Form of Bond. The Bond shall be in substantially the following form:

NO. R-1

\$807,000

STATE OF WASHINGTON
PORT OF PORT TOWNSEND
JUNIOR LIEN REVENUE BOND, 2013

INTEREST RATE: Initially 2.20% to and including October 31, 2016, and 3.00%
beginning on November 1, 2016 and thereafter

MATURITY DATE: November 1, 2018

REGISTERED OWNER: CASHMERE VALLEY BANK
117 APLETS WAY
CASHMERE, WA 98815

TAX IDENTIFICATION #: 91-0168460

PRINCIPAL AMOUNT: EIGHT HUNDRED SEVEN THOUSAND AND NO/100
DOLLARS

THE PORT OF PORT TOWNSEND, WASHINGTON (the "Port"), hereby acknowledges itself to owe and for value received promises to pay to the Registered Owner identified above, or registered assigns, the Principal Amount specified above, together with interest thereon, at the Interest Rate specified above, as follows:

<u>Payment Date</u>	<u>Principal Amount</u>	<u>Interest</u>	<u>Total</u>
11/01/2013	\$	\$	\$
05/01/2014			
11/01/2014			
05/01/2015			
11/01/2015			
05/01/2016			
11/01/2016			
05/01/2017			
11/01/2017			
05/01/2018			
11/01/2018			

Interest shall be calculated on the basis of a 360 day year with twelve 30-day months.

Both principal of and interest on this bond are payable in lawful money of the United States of America. Interest on this bond shall be paid by check or draft of the fiscal agency of the State of Washington (the "Bond Registrar") mailed on the date such interest is due or by

electronic funds transfer made on the date such interest is due to the Registered Owner at the address appearing on the Bond Register. Payment of principal of this bond shall be made upon surrender of this bond to the Bond Registrar at the office designated by the Bond Registrar.

This bond is issued pursuant to Resolution No. 595-13 (the "Bond Resolution") to finance a portion of the costs of a new Port administration building located in the city of Port Townsend and to pay costs of issuance. Capitalized terms appearing on this bond and not otherwise defined herein shall have the meanings given such terms in the Bond Resolution.

The Port reserves the right to prepay principal of this bond in advance of the scheduled payments set forth above, in whole or in part, at any time, with no prepayment penalty. The Port will notify the Registered Owner and the Bond Registrar at least 15 days in advance of its intent to prepay.

This bond may be transferred only in whole and only if endorsed in the manner provided in the Bond Resolution and surrendered to the Bond Registrar. The Registered Owner will not transfer this bond to a subsequent investor unless the Registered Owner causes such investor to receive such information regarding the Port and this bond as is necessary to comply with applicable securities laws.

This bond is not a "private activity bond" as such term is defined in the Internal Revenue Code of 1986, as amended (the "Code"). The Port has designated this bond as a "qualified tax-exempt obligation" under Section 265(b) of the Code for investment by financial institutions.

The Port hereby covenants and agrees with the owner and holder of this bond that it will keep and perform all the covenants of this bond and the Bond Resolution. Reference is hereby made to the Bond Resolution for a more complete description of the terms on which this bond and the bonds of this issue are issued. Capitalized terms used in this bond which are not otherwise defined have the meaning given such terms in the Bond Resolution.

The Port does hereby pledge and bind itself to set aside from its Available Revenues, and to pay into said Junior Lien Bond Fund created therein the various amounts required by the Bond Resolution to be paid into and maintained in said Fund, all within the times provided by said Bond Resolution.

Said amounts so pledged to be paid out of Available Revenues into said Junior Bond Fund are hereby declared to be a junior lien revenue obligation of the Port, payable solely from Available Revenues.

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 or on behalf of the Bond Registrar.

This bond is issued under and in accordance with the provisions of the Constitution and applicable statutes of the State of Washington and resolutions duly adopted by the Port Commission including the Bond Resolution.

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

IN WITNESS WHEREOF, the Port of Port Townsend, Washington, has caused this bond to be executed by the manual or facsimile signatures of the President and Secretary of the Port Commission, and the corporate seal of the Port to be reproduced hereon, as of the ____ day of _____, 2013.

[SEAL]

PORT OF PORT TOWNSEND,
WASHINGTON

By _____/s/_____
President, Port Commission

ATTEST:

_____/s/_____
Secretary, Port Commission

The Bond Registrar's Certificate of Authentication on the Bond shall be in substantially the following form:

CERTIFICATE OF AUTHENTICATION

Date of Authentication: _____

This bond is the Junior Lien Revenue Bond, 2013 described in the within-mentioned Bond Resolution of the Port of Port Townsend, Washington, dated _____, 2013.

WASHINGTON STATE FISCAL
AGENCY, Registrar

By _____
Authorized Signer

Section 9. Execution of Bond. The Bond shall be executed on behalf of the Port with the manual or facsimile signature of the President of its Commission, shall be attested by the

facsimile signature of the Secretary thereof and the seal of the Port impressed or imprinted thereon.

The Bond shall be valid only if the Certificate of Authentication in the form hereinbefore recited has been manually executed by or on behalf of the Bond Registrar. Such Certificate of Authentication shall be conclusive evidence that the Bond as authenticated has been duly executed, authenticated and delivered hereunder and is entitled to the benefits of this resolution.

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

Section 10. Application of Bond Proceeds. The Treasurer is hereby authorized and directed to establish a Port of Port Townsend Administration Building Fund – 2013 or such other fund or account designation that may be determined by the Treasurer (the “Project Fund”). The proceeds of sale of the Bond, along with other Project funding sources, shall be deposited in the Project Fund and shall be expended to pay the costs of the Project and the costs of issuing and selling the Bond, as authorized herein. Money in the Project Fund may be invested in any legal investment for Port funds, and interest earnings shall be deposited in the Project Fund.

Section 11. Tax Covenants; Special Designation.

(a) *Arbitrage Covenant.* The Port hereby covenants that it will not make any use of the proceeds of sale of the Bond or any other funds of the Port that may be deemed to be proceeds of such Bond pursuant to Section 148 of the Code that will cause the Bond to be an "arbitrage bond" within the meaning of said section and said regulations. The Port will comply with the requirements of Section 148 of the Code (or any successor provision thereof applicable to the Bond) and the applicable Regulations thereunder throughout the term of the Bond.

(b) *Bank Designation.* The Port hereby designates the Bond as a "qualified tax-exempt obligation" for investment by financial institutions under Section 265(b) of the Code. The Port does not anticipate that it will issue more than \$10,000,000 in tax-exempt obligations during 2013.

(c) *Private Person Use Limitation for Bonds* The Port covenants that for as long as the Bond is outstanding, it will not permit:

(i) More than 10% of the Net Proceeds of the Bond to be used for any Private Person Use; and

(ii) More than 10% of the principal or interest payments on the Bond in a Bond Year to be directly or indirectly: (A) secured by any interest in property used or to be used for any Private Person Use or secured by payments in respect of property used or to be used for any Private Person Use, or (B) derived from payments (whether or not made to the Port) in respect of property, or borrowed money, used or to be used for any Private Person Use.

The Port further covenants that, if:

(iii) More than five percent of the Net Proceeds of the Bond are to be used for any Private Person Use; and

(iv) More than five percent of the principal or interest payments on the Bond in a Bond Year are (under the terms of this resolution or any underlying arrangement) directly or indirectly: (A) secured by any interest in property used or to be used for any Private Person Use or secured by payments in respect of property used or to be used for any Private Person Use, or (B) derived from payments (whether or not made to the Port) in respect of property, or borrowed money, used or to be used for any Private Person Use, then, (1) any Private Person Use of the projects being financed with the proceeds of the Bond, described in subsection (iii) hereof, or Private Person Use payments described in subsection (iv) hereof that is in excess of the five percent limitations described in such subsections (iii) or (iv) will be for a Private Person Use that is related to the state or local governmental use of the projects, and (2) any Private Person Use will not exceed the amount of Net Proceeds of the Bond used for the state or local governmental use portion of the projects to which the Private Person Use of such portion of the projects relates. The Port further covenants that it will comply with any limitations on the use of the projects by other than state and local governmental users that are necessary, in the opinion of Bond Counsel, to preserve the tax exemption of the interest on the Bond. The covenants of this section are specified solely to assure the continued exemption from regular income taxation of the interest on the Bond.

(d) *Modification of Tax Covenants.* The covenants of this section are specified solely to assure the continued exemption from regular income taxation of the interest on the Bond. To that end, the provisions of this section may be modified or eliminated without any requirement for formal amendment thereof upon receipt of an opinion of Bond Counsel that such modification or elimination will not adversely affect the tax exemption of interest on any Bond.

Section 12. Sale of Bond. The Port Commission hereby ratifies and confirms its acceptance of the Bank's Bond Purchase Offer dated May 8, 2013, to purchase the Bond on the terms specified therein and in this resolution. To the extent there are inconsistent terms between this resolution and the Bond Purchase Offer, the terms in this resolution shall prevail. The appropriate Port officials are hereby authorized and directed to do everything necessary for the prompt execution and delivery of the Bond to the Bank and for the proper application and use of the proceeds of sale thereof.

Section 13. Ongoing Disclosure; Information to be Provided to Bank. The Port is exempt from the ongoing disclosure requirements of Securities and Exchange Commission Rule 15c2-12 by reason of the exemption set forth in subsection (d)(i) of that rule with respect to the issuance of securities in authorized denominations of \$100,000 or more and sold to no more than 35 sophisticated investors.

The Port will provide financial statements to the Bank when they are published annually until the date of final maturity of the Bond.

Section 14. Lost, Stolen or Destroyed Bond. In case the Bond shall be lost, stolen or destroyed, the Bond Registrar may execute and deliver a new Bond of like date, number and tenor to the Bank thereof upon the Bank's paying the expenses and charges of the Port and the Bond Registrar in connection therewith and upon his filing with the Port evidence satisfactory to the Port and the Bond Registrar that such Bond was actually lost, stolen or destroyed and of his ownership thereof, and upon furnishing the Port and Bond Registrar with indemnity satisfactory to the Port.

Section 15. Severability. If any one or more of the covenants or agreements provided in this resolution to be performed on the part of the Port 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 Bond.

Section 16. Effective Date. This resolution shall be effective immediately upon its adoption.

ADOPTED by the Port Commission of the Port of Port Townsend at a regular meeting thereof, held this 8th day of May, 2013.

PORT OF PORT TOWNSEND,
WASHINGTON

By


President and Commissioner

By


Vice President and Commissioner

By

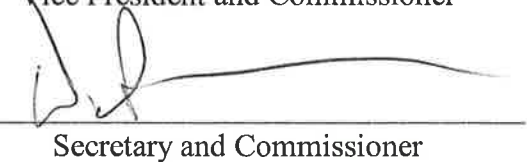

Secretary and Commissioner

EXHIBIT A

The Bond Purchase Offer



May 8, 2013

Ms. Amy Khile
Director of Finance
Port of Port Townsend
375 Hudson Street
P. O. Box 1180
Port Townsend, WA 98368

Dear Ms. Khile,

Thank you for the opportunity to purchase the Port of Port Townsend Junior Lien Revenue Bond, 2013 (the "Bond"). Cashmere Valley Bank is pleased to purchase the Bond with the following terms:

1. Borrower: Port of Port Townsend, Jefferson County, Washington (the "Port").
2. Amount: \$807,000
3. Form: Fully registered, bank-qualified tax-exempt junior lien revenue bond purchased by the Bank at private sale.
4. Purpose: To finance a portion of the costs to acquire, construct and equip a new Port administration building located in the city of Port Townsend, and to pay the costs of issuance of the Bond.
5. Bond Terms:
 - a. Interest Rate: The Bond will bear interest at the rate of 2.20% per annum on unpaid principal from the date of delivery of the Bond to the Bank (the "Closing Date") to and including October 31, 2016. Beginning November 1, 2016 to the maturity or earlier prepayment, the Bond will bear interest at the rate of 3.00% per annum on unpaid principal. Interest will be computed on the basis of a 360-day year consisting of twelve 30-day months.
 - b. Description: The Bond will mature on November 1, 2018 (the "Maturity Date"). The Bond will be structured with payments of interest due each May 1 and November 1,

beginning November 1, 2013. Beginning with the payment due May 1, 2017, the Bond will be structured with approximately equal semiannual installments of principal and interest due each May 1 and November 1 to the Maturity Date or earlier prepayment of the Bond. A debt service schedule describing the installments of principal of and interest on the Bond is attached hereto as Exhibit A. The final installment payment of principal of and interest on the Bond, whether on the Maturity Date or earlier prepayment of the Bond, shall be in an amount equal to the remaining principal and interest due on the Bond. The Bond Registrar and Paying Agent will be the Bank of New York Mellon.

- c. Security: The Bond will be a junior lien revenue obligation of the Port payable from Gross Revenues, subject to the payment of Operating Expenses and terms of the Outstanding Senior Lien Bonds as further described in Resolution No. 595-13 of the Port (the "Bond Resolution").
 - d. Pledges and Covenants: The Port will pledge to not issue any additional revenue debt while the Bond is outstanding without prior consent of the Bank. The Port will covenant to set rates and charges in sufficient amounts to provide Net Revenues of at least 125% of the combined annual debt service on all outstanding revenue bonds.
 - e. Transferability: The Bank will hold the Bond with no intent to sell or transfer. The Bond may be transferred only in whole to a qualified investor, and as provided in the Bond Resolution.
6. Prepayment: The Bond may be prepaid, in whole or in part, at any time prior to the Maturity Date at par plus accrued interest to the date of prepayment. The Port will provide the Bank with written notice of any intended prepayment at least 15 days prior to such prepayment date.
7. Fees: There is no loan fee due to the Bank. The Port is responsible for all other costs of issuance of the Bond.
8. Additional Terms: Capitalized terms not defined herein have the meaning defined in the Bond Resolution. The Bond documents will be in the standard forms customarily required by the Bank for tax-exempt municipal funding and will include additional terms and conditions not discussed above. The Port will designate the Bond as a "qualified tax-exempt obligation" under Section 265(b)(3) of the Internal Revenue Code of 1986, as amended, for investment by financial institutions. The Port will provide its annual financial report to the Bank during the period the Bond is outstanding and held by the Bank. At the date of closing the Bond, the financial condition and credit of the Port and all other features of this transaction will be as represented to the Bank without material adverse change. In the event of adverse material changes in the credit worthiness of the Port, including litigation involving or claims filed against the Port, this commitment will terminate upon notice by the Bank. This commitment is non-assignable by the Port. This

commitment supersedes any prior commitments, offers, or agreements written or oral, concerning this financing and can only be modified in writing.

9. Closing: The Closing Date is anticipated to take place on or about May 15, 2013.
10. Acceptance: This commitment is not binding unless the Port returns a signed copy of this letter to the Bank prior to the close of business on Monday, May 13, 2013 at which time the commitment will expire upon notice of the Bank. If, after acceptance, the Bond has not closed by May 22, 2013, this commitment will expire without notice.

ORAL AGREEMENTS OR ORAL COMMITMENTS TO LOAN MONEY, EXTEND CREDIT, OR TO FORBEAR FROM ENFORCING REPAYMENT OF A DEBT ARE NOT ENFORCEABLE UNDER WASHINGTON LAW.

Thank you for the opportunity to work with the Port and its finance team.

Sincerely,



Jim Tinker
AVP, Municipal Services

Acknowledged and accepted this 8th day of May, 2013

Port of Port Townsend
Jefferson County, Washington

By: 

Title: _____

Cc: Cynthia Weed, K&L Gates LLP
Alan Dashen & Scott Bauer, A. Dashen & Associates
Judi Morris, Jefferson County Treasurer

Exhibit A

Debt Service Schedule

<u>Payment Date</u>	<u>Beginning Outstanding Principal</u>	<u>Principal Payment</u>	<u>Rate</u>	<u>Interest Payment</u>	<u>Ending Outstanding Principal</u>	<u>Cash Flow</u>
5/15/2013					807,000.00	807,000.00
11/1/2013	807,000.00	-	2.20%	(8,186.57)	807,000.00	(8,186.57)
5/1/2014	807,000.00	-	2.20%	(8,877.00)	807,000.00	(8,877.00)
11/1/2014	807,000.00	-	2.20%	(8,877.00)	807,000.00	(8,877.00)
5/1/2015	807,000.00	-	2.20%	(8,877.00)	807,000.00	(8,877.00)
11/1/2015	807,000.00	-	2.20%	(8,877.00)	807,000.00	(8,877.00)
5/1/2016	807,000.00	-	2.20%	(8,877.00)	807,000.00	(8,877.00)
11/1/2016	807,000.00	-	2.20%	(8,877.00)	807,000.00	(8,877.00)
5/1/2017	807,000.00	(197,266.94)	3.00%	(12,105.00)	609,733.06	(209,371.94)
11/1/2017	609,733.06	(200,225.94)	3.00%	(9,146.00)	409,507.12	(209,371.94)
5/1/2018	409,507.12	(203,229.33)	3.00%	(6,142.61)	206,277.79	(209,371.94)
11/1/2018	206,277.79	(206,277.79)	3.00%	(3,094.17)	-	(209,371.96)


CERTIFICATE

I, the undersigned, Secretary of the Port Commission ("Commission") of the Port of Port Townsend, Washington (herein called the "Port"), DO HEREBY CERTIFY:

1. That the attached resolution numbered 595-13 (herein called the "Resolution") is a true and correct copy of a resolution of the Port, as finally adopted at a meeting of the Commission held on the 8th day of May, 2013, and duly recorded in my office.

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

IN WITNESS WHEREOF, I have hereunto set my hand this 8th day of May, 2013.



Secretary, Port Commission