

ORDINANCE NO. 03-2

AN ORDINANCE OF BAYVIEW WATER AND SEWER DISTRICT, OF KOOTENAI COUNTY, IDAHO, DECLARING THE COST OF ACQUIRING, CONSTRUCTING, AND INSTALLING IMPROVEMENTS TO THE WATER DISTRIBUTION SYSTEM OF THE DISTRICT; AUTHORIZING THE ISSUANCE AND SALE OF A SINGLE LOCAL IMPROVEMENT DISTRICT NO. 2 BOND IN THE AGGREGATE PRINCIPAL AMOUNT OF \$1,657,068 TO THE STATE OF IDAHO, DEPARTMENT OF ENVIRONMENTAL QUALITY; PROVIDING FOR THE DATE, FORM, MATURITY AND DESIGNATION OF SAID BOND; FIXING THE RATE OF INTEREST AND MANNER OF REPAYMENT OF SAID BOND; PROVIDING FOR REGISTRATION AND AUTHENTICATION OF SAID BOND; APPROVING THE SALE OF SAID BOND; PROVIDING FOR CERTAIN COVENANTS RELATING TO FEDERAL TAX LAW; PROVIDING FOR THE EFFECTIVE DATE HEREOF; AND PROVIDING FOR OTHER MATTERS PROPERLY RELATING THERETO

**BAYVIEW WATER AND SEWER DISTRICT
Kootenai County, Idaho**

**LOCAL IMPROVEMENT DISTRICT NO. 2 BOND, 2003
Principal Amount of \$1,657,068**

BE IT ORDAINED BY THE BOARD OF DIRECTORS OF BAYVIEW WATER AND SEWER DISTRICT, of Kootenai County, Idaho, as follows:

WHEREAS, Bayview Water and Sewer District (the "District"), of Kootenai County, Idaho, is a Water and Sewer District operating and existing under and pursuant to the laws of the State of Idaho, and as such is authorized and empowered to create local improvement districts and to construct improvements pursuant to Idaho Code, Title 50, Chapter 17; and

WHEREAS, the District is authorized to conduct proceedings and to form local improvement districts for the purpose of financing the acquisition, construction and installation of improvements to facilities within the local improvement district pursuant to the terms and provisions of Idaho Code Title 50, Chapter 17; and

WHEREAS, the Board of Directors of the District (the "Board") after proper notice duly created its Local Improvement District No. 2 ("LID No. 2") and ordered the acquisition, construction and installation of water system improvements by Ordinance No. 98-1, adopted on July 21, 1998; and

WHEREAS, the total assessment roll within LID No. 2, as confirmed by Ordinance No. 03-1, adopted on September 12, 2003, has been determined to be approximately \$1,742,716.76; and

WHEREAS, the owners of the property within said LID No. 2 have heretofore paid a portion of that amount, and the District has determined to produce \$1,657,068.00 by the issuance and sale of a Local Improvement District No. 2 Bond; and

WHEREAS, the District has received an offer to purchase the bond from the State of Idaho, Department of Environmental Quality ("IDEQ"), and the District desires to enter into contracts for the sale and purchase of said Bond; and

WHEREAS, the Board now desires to authorize the issuance of its Local Improvement District No. 2 Bond, 2003;

NOW, THEREFORE, BE IT FURTHER ORDAINED as follows:

Section 1: DEFINITIONS

As used in this Ordinance, capitalized terms shall have the meanings provided in this Section. Words of the masculine gender shall be deemed and construed to include correlative words of the feminine and neuter genders, and vice versa. Words imparting the singular number shall include the plural numbers and vice versa, unless the context shall otherwise indicate.

Acquire, Acquiring or Acquisition includes the opening, laying out, establishment, purchase, construction, securing, installation, reconstruction, lease, gift, grant from the federal government, the State of Idaho, any public body therein or any person or entity, the condemnation, transfer, option to purchase, other contract, or other acquirement, or any combination thereof.

Board shall mean the Board of Directors of Bayview Water and Sewer District, of Kootenai County, Idaho.

Bond shall mean the "Bayview Water and Sewer District Local Improvement District No. 2 Bond, 2003" herein authorized to be issued, sold, and delivered in the principal amount of \$1,657,068.

Bond Fund shall mean the "Bayview Water and Sewer District Local Improvement District No. 2 Bond Fund" created by Ordinance No. 03-1 and referred to in this Ordinance, created for the purpose of paying the principal of the Bond.

Bond Registrar shall mean the Treasurer of the District, who shall also act as transfer agent, authenticating agent, and paying agent, pursuant to this Ordinance.

Bond Year means each one-year period that ends on the date selected by the District. The first and last Bond Years may be short periods. If no day is selected by the District before the earlier of the final maturity date of the Bond or the date that is five years after the date of issuance of the Bond, Bond Years end on each anniversary of the date of issue and on the final maturity date of the Bond.

Chairman or Vice-Chair shall mean the *de facto* or *de jure* Chairman of the Board, or any presiding officer or titular head of the District or his/her successor in functions, if any.

Code shall mean the Internal Revenue Code of 1986, as amended, and any Treasury Regulations promulgated thereunder.

Construction Fund shall mean the "Bayview Water and Sewer District Construction Fund" heretofore created by the District and referred to in this Ordinance.

Cost of the Project or Costs of the Project or any phrase of similar import, shall mean all or any part designated by the Board of the costs of the Project, or interest therein, which costs, at the option of the Board, may include all or any part of the incidental costs pertaining to the Acquisition of the Project, including, without limitation:

- (1) Preliminary expenses advanced by the District from funds available for the use therefor, or advanced by the federal government, or from any other source, with approval of the Board, or any combination thereof;
- (2) The costs of making surveys, audits, preliminary plans, other plans, specifications, estimates of costs and other preliminaries;
- (3) The costs of appraising, printing, estimates, advice, services of engineers, architects, financial consultants, attorneys at law, clerical help, or other agents or employees;
- (4) The costs of contingencies;
- (5) The costs of any discount on the Bond and of any of the costs of issuance of the Bond;
- (6) The costs of funding any short-term financing, Notes, or other temporary loans appertaining to the Project, and of the incidental expenses incurred in connection with such loans;
- (7) The Acquisition costs of any properties, rights, easements, or other interest in properties, or any licenses, privileges, agreements and franchises; and
- (8) All other expenses necessary or desirable and appertaining to the Project, as estimated or otherwise ascertained by the District.

DEQ shall mean the State of Idaho, Department of Environmental Quality, or its successor in functions.

District shall mean Bayview Water and Sewer District, of Kootenai County, Idaho, a duly incorporated and existing municipal corporation organized and operating under the Constitution and laws of the State of Idaho.

Guarantee Fund shall mean the "Bayview Water and Sewer District Local Improvement Guarantee Fund" created in Section 12 herein for the purpose of guaranteeing, to the extent of such fund, the payment of principal of and interest on local improvement district bonds and notes of the District.

Interest Fund shall mean the "Bayview Water and Sewer District Local Improvement District No. 2 Interest Fund" created by Ordinance No. 03-1 and referred to herein for the purpose of paying interest on the Bond.

Improvement(s) or Improve includes the Acquisition, extension, widening, lengthening, betterment, alteration, reconstruction, or other major improvement, or any combination thereof, of any properties pertaining to the System or an interest therein, but does not mean general maintenance or repair.

Net Proceeds when used with reference to the Bond shall mean the face amount of the Bond, plus accrued interest, if any, and original issue premium, if any, and less original issue discount, if any.

Ordinance No. 03-2 or Bond Ordinance shall mean this Ordinance, adopted on October 28, 2003, by the Board, authorizing the issuance of the Bond.

Project shall mean the water improvement project described and authorized by Ordinance No. 98-1, adopted on July 21, 1998, and consisting generally of the acquisition, construction and installation of improvements and additions to the Bayview Water and Sewer District water distribution facilities.

Purchaser shall mean DEQ as initial purchaser of the Bond.

Registered Owner shall mean the purchaser of the Bond and any subsequent transferees or purchaser of the Bond.

Secretary shall mean the *de facto* or *de jure* Secretary, or other officer of the District who is the custodian of the seal of the District and of the records of the proceedings of the Board, or his/her successor in function, if any.

System shall mean the water distribution system and facilities of the District, as it now exists, including the assets, real and personal, tangible and intangible, as it will be added to by the

Acquisition of the Project, and as it may later be added to, improved and extended, and shall include buildings, structures, utilities or other income-producing property from the operation of or in connection with which revenues for the payment of the Bond to be issued hereunder will be derived, and the lands appertaining thereto, including, without limitation, any Improvement to be Acquired with the proceeds of the Bond.

Treasurer shall mean the Treasurer of the District, or his or his/her successor in functions, if any.

Section 2: THE PROJECT

A. Project Description. The District shall Acquire certain Improvements to the System, consisting of the following:

The acquisition, construction and installation of water system improvements in the area now generally served by the Pend Oreille Pines Water System, Cape Horn Water Users, Cape Horn Estates Water System and West Cape Area, including transmission lines, pump stations storage tanks, valves, meters, hydrants and other necessary equipment, together with engineering, legal, accounting, costs of bond issuance, costs of financial advice and other costs incidental thereto. All work will be performed and all materials supplied after the advertisement for bids therefor by giving notice calling for sealed bids for the construction of work.

Said Project is more fully described in the plans and specifications prepared by J-U-B Engineers, Inc., of Coeur d'Alene, Idaho, on file in the office of the Secretary and hereby incorporated herein by this reference.

B. Cost of the Project. The total Cost of the Project is estimated to be \$1,951,170, of which \$1,657,068 will be financed by the proceeds of the Bond, previously defined and hereinafter authorized to be issued by the Board by this Ordinance. The remainder of the Cost of the Project will be paid with grant funds, prepaid assessments from property owners and other legally available funds, including the issuance of additional bonds, if necessary.

Section 3: BOND AUTHORIZED

One Local Improvement District No. 2 Bond of the District, in fully registered form, designated "Bayview Water and Sewer District Local Improvement District No. 2 Bond, 2003" in the principal amount of not to exceed \$1,657,068 is also hereby authorized to be issued, sold, and delivered to the State of Idaho, Department of Environmental Quality.

The Bond is issued in the aggregate principal amount of \$1,657,068, which is part of the cost of effecting the improvements, including the contract price and the cost and expenses of engineering, legal and all other costs incidental to said improvements, including the costs of issuance of the Bond, publications, and interim financing, less the prepayment of assessments.

Section 4: DESCRIPTION OF BOND

The Bond shall be issued in fully registered form, shall be dated as of November 1, 2003, shall be in the total aggregate principal amount of \$1,657,068, and shall bear interest on the unpaid balance from the date of the Bond until paid at the rate of 2.00% per annum. Interest shall be calculated on the basis of a 365-day year.

Said Bond shall be payable in equal annual installments of principal and interest, with the first amortized installment of principal and interest on the Bond, in the amount of \$101,340.84, being due on November 1, 2004. Annual amortized installments of principal and interest are due thereafter on each November 1 to the date of maturity or prior redemption. The final annual installment may be in such greater or lesser amount as is necessary to fully pay both of said Bond, both principal and interest, within twenty (20) years of its date.

The Bond referred to herein shall be substantially in the form as set forth in Exhibit "A", attached hereto and hereby made a part hereof.

Section 5: SALE OF BOND AUTHORIZED

The sale of the Bond to the State of Idaho, Department of Environmental Quality, in accordance with its offer to purchase, is hereby accepted, authorized and approved. DEQ has requested, and the District has agreed, that the obligation of the District thereunder shall be represented in the form of a single registered, transferable Bond without coupons. DEQ shall have the right, at its expense, to convert said single Bond to fully registered serial bond, without coupons, in the principal amount then remaining unpaid, bearing the same interest rate, maturing annually on the first day of the month in which the Bond are originally issued, and dated as of the year in which such conversion is effected.

Section 6: EXECUTION AND DELIVERY OF BOND

Without unreasonable delay, the District shall cause a definitive Bond to be prepared, executed and delivered, which Bond shall be lithographed or printed with engraved or lithographed borders. The Bond shall be signed by the Chairman or Vice-Chair of the Board of the District, countersigned by the Treasurer, and attested by the Secretary (all of which signatures shall be done manually), and the official seal of the District shall be impressed thereon. The Bond shall then be delivered to the Bond Registrar for authentication.

Only such Bond as shall bear therein a Certificate of Authentication in the form set forth in Exhibit "A", manually executed by the Bond Registrar, shall be valid or obligatory for any purpose or entitled to the benefits of this Ordinance, and such certificate of authentication shall be conclusive evidence that the Bond so authenticated have been duly executed, authenticated, and delivered hereunder and is entitled to the benefits of this Ordinance.

Section 7: PLACE AND MANNER OF PAYMENT

Both principal of and interest on the Bond are payable in lawful money of the United States of America by check or draft or electronic transfer on or before the due date to the Registered Owner at the address of such Registered Owner as shown on the registration books of the District (the "Bond Register") maintained by the Bond Registrar as of the close of business on the 15th day of the calendar month next preceding the payment date.

Section 8: REDEMPTION PRIOR TO MATURITY

A. **Optional Redemption.** The District hereby reserves the right, at its option with the prior written approval of the Registered Owner, to redeem, on any payment date, the principal amount outstanding, in whole, or, in the manner hereinafter provided, in part, at any time while the Bond are held by the Registered Owners.

Redemption shall be made on any payment date, and partial redemption shall be in the amount of \$1,000 or in multiples thereof. No partial redemption shall extend or postpone the due date of any subsequent installment. Any redemption shall be made without penalty, additional interest, or charges.

B. **Notice of Redemption.** Notice of any such intended redemption shall be mailed by registered mail to the Registered Owner of the Bond at its address appearing on the Bond Register or at such other address as designated in writing to the Bond Registrar by the Registered Owner, at least thirty (30) days prior to the redemption date.

If either single Bond referred to herein is converted to fully registered serial bond, without coupons, the District reserves the right to redeem and call said serial bond, at par plus accrued interest to the date of redemption in inverse numerical order, at the option of the District, on any interest payment date, subject to written notice of such intended redemption to the Registered Owner in the manner provided by law.

C. **Effect of Redemption.** When so called for redemption, each Bond or portion thereof shall cease to accrue interest on the specified redemption date, provided funds for redemption are on deposit at the place of payment at that time, and shall not be deemed to be outstanding as of such redemption date.

Section 9: BOND REGISTRAR

The Treasurer of the District is hereby appointed as bond registrar, transfer agent, authenticating agent, and paying agent, and is herein referred to as the "Bond Registrar." The Bond Registrar shall keep, or cause to be kept, sufficient books for the registration and transfer of the Bond. The Bond Registrar is authorized to authenticate and deliver the Bond 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 Ordinance.

The Bond Registrar shall be responsible for its representations contained in the Certificate of Authentication on the Bond.

The Bond may be transferred only upon the Bond Register, upon the surrender thereof at the principal office of the Bond Registrar, together with a form of transfer duly executed by the Registered Owner or their attorney duly authorized in writing, substantially in the form set forth in the form of the Bond referred to in Section 4 hereof. Upon the transfer of the Bond, there shall be issued in the name of the transferee or transferees a new fully registered Bond of the same aggregate principal amount, maturity and interest rate as the surrendered Bond. The new Bond shall bear the same date as the date of the surrendered Bond, but shall bear interest from the immediately preceding interest payment date to which interest has been paid or duly provided for.

Section 10: NOTE FUND

There has heretofore been created a fund known as the "Bayview Water and Sewer District Bond Anticipation Note Fund," herein called the "Note Fund," into which shall be deposited all of the proceeds of the sale of the Bond, plus all grant funds received from any source and/or funds received from any other legally available source, to be used and applied for the payment of the Cost of the Project, including principal of and interest on the Notes. Any interest earnings on moneys invested from the Note Fund shall be deposited into the Note Fund. Any moneys remaining in the Note Fund after payment of all outstanding interim financing, both principal and interest, shall be transferred to the Construction Fund.

When the Project has been completed and all costs related thereto have been paid in full, any balance remaining in the Construction Fund derived from the Bond will be deposited into the Bond Fund described in this Ordinance.

Section 11: BOND FUND AND INTEREST FUND

The District Treasurer was authorized and empowered by Ordinance No. 03-1 to receive and collect all assessments levied on property within LID No. 2 to pay the Cost of the Project, the installments thereof, the interest thereon, and the penalties accrued, and to pay and disburse such payments to the person or persons lawfully entitled to receive the same, in accordance with the laws of the State of Idaho and all ordinances and resolutions of the District.

All moneys constituting payment of principal on said unpaid installments of assessments for LID No. 2 are to be deposited into a special fund, designated "Bayview Water and Sewer District Local Improvement District No. 2 Bond Fund" (the "Bond Fund"), heretofore created, and shall be used and applied for the purpose of paying the principal of the Bond herein authorized and for no other purpose whatsoever, and as security for such payment the Bond Fund is hereby pledged.

All moneys constituting payment of interest on said unpaid installments of assessments for LID No. 2 are to be deposited into a special fund, designated "Bayview Water and Sewer District Local Improvement District No. 2 Interest Fund" (the "Interest Fund"), also heretofore created,

and shall be used and applied for the purpose of paying the interest on the Bond herein authorized and for no other purpose whatsoever, and as security for such payment the Interest Fund is hereby pledged.

Both principal of and interest on the Bond are payable only out of said Bond Fund and Interest Fund, or out of the Local Improvement Guarantee Fund to the extent of such fund and not otherwise.

Moneys in the Bond Fund and Interest Fund for LID No. 2 shall be deposited in such bank or banks as are designated as depositories of public moneys for the funds of the District under the depository laws of the State of Idaho for the deposit of public funds or investments as provided by law. Interest received on such funds to be deposited or invested shall be placed to the credit of the fund from which it was earned.

Section 12: GUARANTEE FUND

The District hereby creates a Guarantee Fund. The District has proposed and the Purchaser has agreed that \$50,000 shall initially be deposited into said Guarantee Fund, but there is no additional funding requirement of any kind at this time. Whenever there shall be, on any payment date for the Bond, insufficient funds in the Bond Fund or Interest Fund to make any payment of principal of or interest on the Bond as the same becomes due, payment therefor shall be made by warrant drawn against the Guarantee Fund in the manner provided by Section 50-1763, Idaho Code. If funds for the payment of such warrant are not available in the Guarantee Fund, such warrant shall be registered as provided in Section 50-1763, Idaho Code, and the District shall cause a special tax to be levied and collected therefor as provided in Section 50-1762, Idaho Code. The Guarantee Fund shall thereafter be maintained in the manner provided by Sections 50-1762 through 1769, Idaho Code.

Neither the holder nor the owner of any bond or warrant issued under the provisions of Title 50, Chapter 17, Idaho Code, shall have any claim therefor, except for payment from the special assessments made for the improvement for which said bond or warrant was issued, and except as against the Guarantee Fund herein provided, and the District shall not be liable to any holder or owner of such bond or warrant for any loss to the Guarantee Fund occurring in the lawful operation thereof by the District.

Section 13: LOST, STOLEN, MUTILATED OR DESTROYED BOND

In case any Bond shall be lost, stolen, mutilated or destroyed, the Bond Registrar may authenticate and deliver a new Bond of like date, denomination, number, tenor and effect to the Registered Owner thereof upon the Registered Owner's paying the expenses and charges of the District in connection therewith and upon his filing with the District evidence satisfactory to the District that such Bond was actually lost, stolen or destroyed and of this ownership thereof, and upon furnishing the District with indemnity satisfactory to the District.

Section 14: TRANSFER OR EXCHANGE OF BOND

Either series of Bond shall be transferable by the Registered Owner thereof in person, or by its attorney duly authorized in writing, upon surrender of the Bond at the principal office of the Bond Registrar for cancellation and issuance of a new Bond registered in the name of the transferee, in exchange therefor.

A Bond shall be exchangeable for a Bond of any authorized denomination or denominations, upon surrender and cancellation of said Bond at the office of the Bond Registrar.

Whenever a Bond shall be surrendered for transfer or exchange, the Bond Registrar shall authenticate and deliver to the transferee or exchange, in exchange therefor, a new fully registered Bond of any authorized denomination or denominations, of the same maturity and interest rate, and for the aggregate principal amount of such Bond being surrendered.

The Bond Registrar shall require the payment by the Registered Owner requesting such transfer or exchange of any tax, fee or governmental charge required to be paid with respect to such transfer or exchange. The costs imposed by the Bond Registrar for such transfer or exchange shall be deemed to be a Cost of the Project to be borne by the District.

Section 15: TAX COVENANTS; DESIGNATION

The District covenants to undertake all actions required to maintain the tax-exempt status of interest on the Bond under the Code as set forth in this Ordinance and the closing documents that will be executed at the closing of the Bond.

The Bond is a "qualified tax-exempt obligation" under Section 265(b)(3) of the Code for banks, thrift institutions and other financial institutions.

Section 16: VALIDITY OF ISSUANCE

The Bond is issued pursuant to the Local Improvement District Act, being Idaho Code Section 50-1701 through 50-1771, inclusive. This recital is conclusive evidence of the validity of the Bond and the regularity of their issuance.

Section 17: ORDINANCE A CONTRACT

The provisions of this Ordinance shall constitute a contract between the District and the Registered Owner so long as the Bond hereby authorized remain unpaid. The District hereby agrees to comply with all requirements of the State of Idaho as contained in the May 16, 2003 Loan Offer, Acceptance and Contract for Drinking Water Treatment, Design and Construction (Amended), to the extent that the requirements therein are not inconsistent with State law.

Section 18: DETERMINATION

The Board does hereby find, determine, and declare that it is essential to the public interest, welfare, and convenience of the District and the inhabitants thereof to undertake and acquire the Project. Said Project will be paid for in part by the issuance of the Bond in conformity with the Idaho Code, as set forth herein.

Section 19: SEVERABILITY

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

Section 20: REPEALER

All prior resolutions or ordinances inconsistent herewith are hereby repealed and shall, to the extent of such inconsistency, have no further force or effect.

Section 21: PUBLICATION

Pursuant to Section 50-1727, Idaho Code, this Ordinance, or a summary thereof in compliance with Section 31-715A, Idaho Code, substantially in the form attached hereto as Exhibit "B" and incorporated herein by this reference, shall be published once in the official newspaper of the District. Any contest or proceeding to question the validity or legality of this Ordinance, or of any ordinance, resolution, or proceedings heretofore taken with respect to LID No. 2, or of the Bond authorized hereby, shall be brought in court by any person for any cause whatsoever after the expiration of thirty (30) days from the publication of this Ordinance, and after such time the validity, legality and regularity of this Ordinance and any ordinance, resolution, or proceedings with respect to LID No. 2, or the Bond authorized hereby, shall be conclusively presumed.

Section 22: EFFECTIVE DATE

This Ordinance shall take effect and be in force from and after its passage, approval and publication as provided herein.

ADOPTED this 28th day of October, 2003.

BAYVIEW WATER AND SEWER DISTRICT

C E Waller

Chairman or Vice-Chair Board of Directors

ATTEST:

Debra Lynne Peck

Secretary

(SEAL)



CERTIFICATE

I, the undersigned, Secretary of the Board of Directors of Bayview Water and Sewer District, of Kootenai County, Idaho, HEREBY CERTIFY that the foregoing Ordinance is a full, true and correct copy of a Ordinance duly adopted at a special meeting of the Board of said District, duly held at the regular meeting place thereof on October 28, 2003, of which meeting all members of said Board had due notice and at which a majority thereof were present; and that at said meeting said Ordinance was adopted by the following vote:

AYES, and in favor thereof, Directors: *Chuck Wallace, Hobart Jenkins, Pat Dow, Dave Wilcox*

NOES, Directors: *0*

ABSENT, Directors: *Shirley Hansen*

ABSTAIN, Directors: *0*

I FURTHER CERTIFY that I have carefully compared the same with the original Ordinance on file and of record in my office; that said Ordinance is a full, true and correct copy of the original Ordinance adopted at said meeting; and that said Ordinance has not been amended, modified or rescinded since the date of its adoption, and is now in full force and effect.

IN WITNESS WHEREOF, I have set my hand and affixed the official seal of said District on October 28, 2003.

Debra Lynne Beck

Secretary

(SEAL)



(Face of Bond)

REGISTERED

No. 1

REGISTERED

\$1,657,068

UNITED STATES OF AMERICA

STATE OF IDAHO

COUNTY OF KOOTENAI

BAYVIEW WATER AND SEWER DISTRICT
LOCAL IMPROVEMENT DISTRICT NO. 2 BOND, 2003

(The District has designated this Bond
as a "Qualified Tax-Exempt Obligation")

See Reverse Side For
Additional Provisions

Interest Rate

2.00%

Maturity Date

November 1, 2023

KNOW ALL MEN BY THESE PRESENTS: That Bayview Water and Sewer District, of Kootenai County, Idaho (the "District"), for value received, promises to pay from the "Bayview Water and Sewer District Local Improvement District No. 2 Bond Fund" (the Bond Fund) created by Ordinance No. 03-2, adopted on October 28, 2003, (the "Bond Ordinance") to the Registered Owner hereof, or registered assigns, on the maturity date specified above, the principal sum of not to exceed

One Million Six Hundred Fifty-Seven Thousand Sixty-Eight and No/100 Dollars - - (\$1,657,068)

and to pay interest thereon from the "Bayview Water and Sewer District Local Improvement District No. 2 Interest Fund" (the "Interest Fund") from the date hereof or the most recent date to which interest has been paid or duly provided for, at the rate per annum specified above. The first equally amortized payment of principal of and interest on the Bond will be made on November 1, 2004 in the amount of \$101,340.84, and annually thereafter on November 1 in the same amount until the date of maturity or prior redemption of this Bond. The final payment may be in a greater or lesser amount as is necessary to pay the Bond in full within twenty (20) years. Both principal of and interest on this Bond are payable only out of said Bond Fund and Interest Fund,

respectively. However, in the event said Bond Fund and Interest Fund shall be insufficient to pay the Bond and the interest thereon as they become due, the deficiency shall be paid out of the District's Local Improvement Guarantee Fund, to the extent of such fund. The Bond has been authorized to be issued by the Bond Ordinance.

Both principal of and interest on this Bond are payable in lawful money of the United States of America to the Registered Owner hereof, whose name shall appear on the registration books of the District (the "Bond Register") maintained by the District Treasurer (the "Bond Registrar"). Interest shall be paid to the Registered Owner at the address shown on the Bond Register as of the close of business on the 15th day of the calendar month next preceding the payment date, and shall be paid by check or draft of the Bond Registrar mailed to such Registered Owner on the due date at the address appearing on the Bond Register, or such other address as may be furnished in writing by such Registered Owner to the Bond Registrar.

Section 50-1723, Idaho Code, reads as follows:

"LIABILITY OF MUNICIPALITY. The holder of any bond, issued under the authority of this code, shall have no claim therefor against the municipality by which the same is issued, except to the extent of the funds created and received by assessments against the property within any local improvement district as herein provided and to the extent of the local improvement guarantee fund which may be established by any such municipality under the provisions of this code, but the municipality shall be held responsible for the lawful levy of all special taxes or assessments herein provided and for the faithful accounting of settlements and payments of the special taxes and assessments levied for the payment of the Bond as herein provided. The owners and holders of such bond shall be entitled to complete enforcement of all assessments made for the payment of such bond. A copy of this section shall be plainly written, printed or engraved on the face of each Bond so issued."

REFERENCE IS HEREBY MADE TO ADDITIONAL PROVISIONS OF THIS BOND SET FORTH ON THE REVERSE SIDE HEREOF, AND SUCH ADDITIONAL PROVISIONS SHALL FOR ALL PURPOSES HAVE THE SAME EFFECT AS IF SET FORTH IN THIS SPACE.

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

IN WITNESS WHEREOF, Bayview Water and Sewer District, of Kootenai County, Idaho, acting through its Board of Directors, has caused this Local Improvement District No. 2 Bond, 2003, to be signed by the manual signature of the Chairman or Vice-Chair of its Board, countersigned by the manual signature of the Treasurer, and attested by the manual signature of the Secretary, and the official seal of the District to be impressed hereon, as of this 1st day of November, 2003.

BAYVIEW WATER AND SEWER DISTRICT
of Kootenai County, Idaho

C E Walker

Chairman or Vice-Chair, Board of Directors

Debra Lynn Beck

Treasurer

ATTEST:

Debra Lynn Beck

Secretary

(SEAL)



(Reverse Side of Bond)

ADDITIONAL BOND PROVISIONS

This Bond, in the principal amount of not to exceed \$1,657,068.00, is issued pursuant to and in full compliance with the Constitution and laws of the State of Idaho, particularly Title 50, Chapter 17 and Title 31, Chapter 7 of the Idaho Code and the Bond Ordinance.

The Board of Directors of said District as the agent for said Local Improvement District No. 2, has caused this Bond to be issued in the name of the District as a single Bond of said Local Improvement District No. 2, said Bond, or the proceeds thereof, to be applied in payment of water improvements within Local Improvement District No. 2.

Payment of the principal of and interest on this Bond is to be borne by owners of property within Local Improvement District No. 2 from special assessments levied upon all property benefited by the water improvements made therein. The Registered Owner of this Bond shall look only to the Bond Fund, the Interest Fund, and the Local Improvement Guarantee Fund provided by Section 50-1762 of the Idaho Code, for the payment of either the principal of or the interest on this Bond. The principal sum of this Bond shall be payable from a separate fund under the control of the District Treasurer and designated "Bayview Water and Sewer District Local Improvement District No. 2 Bond Fund," pledged solely for the payment of the principal of this Bond, and consisting of all moneys constituting the payment of principal of assessments unpaid at the time of the issuance of this Bond. Interest hereon shall be payable from a separate fund under the control of the District Treasurer and designated "Bayview Water and Sewer District Local Improvement District No. 2 Interest Fund," pledged for the payment of the interest on this Bond

and consisting of all moneys constituting the payment of interest on assessments unpaid at the time of the issuance of this Bond. Both Funds have been created by the Bond Ordinance.

This Bond is transferable by the Registered Owner hereof or their attorney duly authorized in writing at the principal office of the Bond Registrar upon surrender of this Bond, accompanied by a duly executed instrument of transfer in the form attached hereto and with guaranty of signature satisfactory to the Bond Registrar, subject to such reasonable regulations as the Bond Registrar may prescribe, and upon payment of any tax, fee, or other governmental charge incident to such transfer. Upon any such transfer, there shall be issued in the name of the transferee a new fully registered Bond or Bond of authorized denominations of the same aggregate principal amount, maturity, and interest rate as this Bond. The person in whose name this Bond is registered shall be deemed the owner hereof for all purposes, and the Bond Registrar shall not be affected by any notice to the contrary.

The Bond is subject to redemption at the times and upon the giving of notice as provided in the Bond Ordinance.

The assessments authorized by the assessment roll in Local Improvement District No. 2, confirmed by Ordinance No. 03-1, adopted on September 12, 2003, are a lien upon the property assessed and have been pledged to pay the principal of and interest on this Bond pursuant to Chapter 17, Title 50, Idaho Code, the Local Improvement District Code of Idaho, and pursuant also to the ordinances and resolutions of the District.

IT IS HEREBY CERTIFIED, RECITED, AND DECLARED that all acts and things required by the Constitution and laws of the State of Idaho and the ordinances and resolutions of the District to exist, to happen, and to be performed precedent to and in the issuance of this Bond and the issue of which it forms a part, necessary to constitute the same legal, binding, and valid special obligations of Local Improvement District No. 2, in accordance with the tenor and terms of said Bond, have existed, have happened, and have been performed in due time, form, and manner; and that the aforesaid special assessments have been legally levied and that this Bond does not exceed the amount of unpaid assessments.

(NO WRITING TO BE PLACED HEREIN EXCEPT BY THE BOND REGISTRAR)

REGISTRATION CERTIFICATE

This Bond shall be payable only to the order of the Registered Owner or his legal representative.

Date of
Registration

Name of
Registered Owner

Signature of
Bond Registrar

November 1, 2003

State of Idaho
Department of Environmental Quality

Boise, ID _____

Debra Lynne Peck

LEGAL OPINION

I, the undersigned, Secretary of the Board of Directors of Bayview Water and Sewer District, Kootenai County, Idaho, DO HEREBY CERTIFY that the legal opinion of Preston Gates & Ellis LLP, of Coeur d'Alene, Idaho, which opinion is dated the date of delivery of and payment for the Bond described therein, an original of which was delivered to me on said date, is a part of the permanent records of the District.

Dated November 1, 2003.

BAYVIEW WATER AND SEWER DISTRICT
Kootenai County, Idaho

Debra Lynne Peck

Secretary

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SUMMARY OF ORDINANCE NO. 03-2

AN ORDINANCE OF BAYVIEW WATER AND SEWER DISTRICT, OF KOOTENAI COUNTY, IDAHO, DECLARING THE COST OF ACQUIRING, CONSTRUCTING, AND INSTALLING IMPROVEMENTS TO THE WATER DISTRIBUTION SYSTEM OF THE DISTRICT; AUTHORIZING THE ISSUANCE AND SALE OF A SINGLE LOCAL IMPROVEMENT DISTRICT NO. 2 BOND IN THE AGGREGATE PRINCIPAL AMOUNT OF \$1,657,068 TO THE STATE OF IDAHO, DEPARTMENT OF ENVIRONMENTAL QUALITY; PROVIDING FOR THE DATE, FORM, MATURITY AND DESIGNATION OF SAID BOND; FIXING THE RATE OF INTEREST AND MANNER OF REPAYMENT OF SAID BOND; PROVIDING FOR REGISTRATION AND AUTHENTICATION OF SAID BOND; APPROVING THE SALE OF SAID BOND; PROVIDING FOR CERTAIN COVENANTS RELATING TO FEDERAL TAX LAW; PROVIDING FOR THE EFFECTIVE DATE HEREOF; AND PROVIDING FOR OTHER MATTERS PROPERLY RELATING THERETO

BAYVIEW WATER AND SEWER DISTRICT Kootenai County, Idaho

LOCAL IMPROVEMENT DISTRICT NO. 2 BOND, 2003 Principal Amount \$1,657,068

A summary of the principal provisions of Ordinance No. 03-2 of Bayview Water and Sewer District, of Kootenai County, Idaho, adopted on October 28, 2003, is as follows. Capitalized terms used in this summary shall have the meaning given them in Ordinance No. 03-2.

Section 1: Provides definitions for terms and phrases used in the Ordinance and the Bond. Capitalized terms throughout the body of this Summary shall have the meaning given them in the Ordinance.

Section 2: Describes the improvement project (the "Project") to be constructed and installed and sets forth the cost of the Project.

Section 3: Authorizes the issuance, sale and delivery of a Local Improvement District No. 2 Bond in the principal amount of \$1,657,068.

Section 4: Describes the Bond and its terms of repayment over a twenty (20) year period with interest at the rate of 2.00% per annum.

Section 5: Authorizes the sale of the Bond to the State of Idaho, Department of Environmental Quality.

Section 6: Describes the method of execution and delivery of the Bond.

Section 7: Provides the place and manner of payment of the Bond.

Section 8: Allows the District to prepay and redeem the Bond prior to its date of maturity, under certain terms and conditions, upon proper notice.

Section 9: Appoints the District Treasurer as Bond Registrar and describes responsibilities of the Registrar.

Section 10: Provides for the deposit of the proceeds of the Bond into the Note Fund to pay costs of the Project, including principal of and interest on the Note.

Section 11: Provides for the deposit of assessments levied on property within LID No. 2 into the Bond Fund and Interest Fund to repay principal of and interest on the Bond. Describes the District's Bond Fund and Interest Fund, and provides that the principal of and interest on the Bond shall be payable out of said Funds.

Section 12: Creates a Guarantee Fund for the Bond, for the purpose of guaranteeing LID Bonds of the District, and makes an initial deposit of \$50,000 therein.

Section 13: Provides for the replacement of a lost, stolen, mutilated or destroyed Bond.

Section 14: Provides for a method of transfer or exchange of the Bond.

Section 15: Describes certain federal tax covenants relating to the Bond. Designates the Bond as a "Qualified Tax-Exempt Obligation" pursuant to the Code.

Section 16: Declares the validity of the Bonds under Idaho Code 50-1701 through 50-1771, inclusive.

Section 17: Provides that the provision of the Ordinance constitute a contract between the District and the Registered Owner for so long as the Bond remains unpaid.

Section 18: Finds, determines and declares the Project to be essential to the public interest, welfare and convenience.

Section 19: Provides that if any portion of the Ordinance is found to be contrary to law, the remainder shall be in full force and effect.

Section 20: Repeals any prior resolution or ordinance inconsistent herewith.

Section 21: Provides for publication of the Ordinance or a summary thereof once in the official newspaper of the District. Provides that any contest or proceeding to question the validity or legality of the Ordinance or of the Bond shall be brought in court by any person for

any cause whatsoever before the expiration of thirty (30) days from the publication of the Ordinance, and after such time the validity, legality and regularity of the Ordinance or the Bond authorized hereby shall be conclusively presumed.

Section 22: States that the Ordinance shall be full force and effect after its passage and publication.

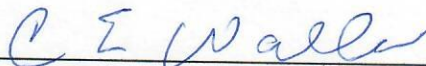
Exhibit "A": Sets forth a form of the Bond.

Exhibit "B": Sets forth this Summary for publication.

A full text of Ordinance No. 03-2 is available at the office of the Secretary of Bayview Water and Sewer District and will be provided to any citizen upon personal request during normal business hours.

DATED this 28th day of October, 2003.

BAYVIEW WATER AND SEWER DISTRICT



Chairman or Vice-Chair

ATTEST:



Secretary

(SEAL)

CERTIFICATION OF BOND COUNSEL

I, the undersigned Bond Counsel for Bayview Water and Sewer District, of Kootenai County, Idaho, hereby certify that I have read the attached Summary of Ordinance No. 03-2 of said District and that the same is true and complete and provides adequate notice to the public of the contents of said Ordinance.

Dated this 28th day of October, 2003.

PRESTON GATES & ELLIS LLP



Michael C. Ormsby, Bond Counsel