

INDIAN VALLEY COMMUNITY SERVICES DISTRICT

NOTE RESOLUTION 2003 - 12

**A RESOLUTION AUTHORIZING THE ISSUANCE OF
A PROMISSORY NOTE TO THE USDA, RURAL DEVELOPMENT,
TO FINANCE THE ACQUISITION AND REHABILITATION OF THE
CRESCENT MILLS WATER SYSTEM**

WHEREAS, the United States Department of Agriculture, Rural Development, through its Rural Utilities Service ("Rural Development"), issued its Letter of Conditions dated January 14, 2003 (the "Letter of Conditions"), specifying the terms under which Rural Development would lend the Indian Valley Community Services District (the "District") \$172,000 to fund a portion of the cost of the acquisition and rehabilitation of the Crescent Mills water system (the "Project");

WHEREAS, this Board adopted its Loan Resolution on February 12, 2003, in the form of the loan resolution specified by RUS Bulletin 1780-27 (the "Loan Resolution"), as required by Paragraph I (D) (1) of the Letter of Conditions;

WHEREAS, pursuant to California Government Code section 61613, the District may borrow money and incur indebtedness and issue evidences of indebtedness;

NOW, THEREFORE, the Board of Directors of the Indian Valley Community Services District hereby resolves as follows:

Section 1. Recitals. All of the above recitals are true and correct and the Board so finds and determines.

Section 2. Authorization of the Issuance of the Note. The Board hereby authorizes the issuance of a promissory note (the "Note") in the principal amount of \$172,000. The Note shall be issued in the form attached to this resolution as Exhibit A. The Board hereby authorizes the Chairperson of the Board and the Secretary, and each of them individually (the "Designated Officers"), to sign the Note with such changes, insertions, revisions, corrections, or amendments as shall be approved by the officer or officers executing the Note for the District. The execution of the Note by a Designated Officer or Officers of the District shall constitute conclusive evidence of such officer's or officers' and the Board's approval of any such changes, insertions, revisions, corrections, or amendments to the form of the Note presented to this meeting.

Section 3. Payment of the Note. The principal amount of the Note, together with the interest thereon, shall be payable from any moneys of the District lawfully available therefor.

Section 4. Sale and Delivery of the Note. The Board hereby authorizes the Designated Officers and each of them to accept the offer of Rural Development to purchase the Note. The Designated Officers are hereby authorized and directed to deliver the Note to Rural Development

Section 5. Deposit and Application of Proceeds of the Note. In accordance with Paragraph II (C) of the Letter of Conditions, the District shall deposit the proceeds of the sale of the Note when received into the construction bank account established for the Project. The District shall apply the funds so deposited to pay Project costs, to reimburse itself for its prior expenditures for Project costs, or to pay costs of issuance of the Note.

Section 6. Reserve Account. (a) Establishment and Funding of the Reserve Account. In accordance with Paragraph I (A) of the Letter of Conditions, the District hereby establishes and promises to maintain a debt service reserve account (the "Reserve Account"). On each anniversary of the delivery of the Note, commencing in 2004, the District shall deposit into the Reserve Account an amount equal to one-tenth (1/10) of the average annual installment payable on the Note until the amount on deposit in the Reserve Account is equal to the "Reserve Requirement," which is equal to one annual payment on the Note.

(b) Application of the Reserve Account. In accordance with Paragraph 14 of the Loan Resolution, the District may withdraw and apply funds from the Reserve Account only with the prior approval of Rural Development and only (i) to make payments of installments of principal and interest on the Note when no other funds of the District are available therefor, (ii) to pay the final installment of principal and interest on the Note, or (iii) to fund emergency maintenance to the District's water facilities, extensions to the District's water facilities, and replacement of short-lived assets used in connection with the District's water facilities that have a useful life significantly less than the repayment period of the Note. The District shall deposit any earnings received from the investment of funds in the Reserve Account therein until the balance of the Reserve Account is equal to the Reserve Requirement, thereafter, the District shall deposit any such earnings into its water enterprise fund.

Section 7. Renewal and Extension Fund. (a) Establishment and Funding of the Renewal and Extension Fund. In accordance with Paragraph I (A) of the Letter of Conditions, the District hereby establishes and promises to maintain a fund designated as the "Renewal and Extension Fund." Once the amount on deposit in the Reserve Account has accumulated to the Reserve Requirement, on each anniversary of the delivery of the Note, for as long as the Note is outstanding, the District shall deposit into the Renewal and Extension Fund an amount equal to one-tenth (1/10) of the average annual installment payable on the Note.

(b) Application of the Renewal and Extension Fund. In accordance with Paragraph I (A) of the Letter of Conditions, the District may withdraw and apply funds from the Renewal and Extension Fund only for emergency maintenance to the District's water facilities, extensions to the District's water facilities, and replacement of short-lived assets used in connection with the District's water facilities that have a useful life significantly less than the repayment period of the Note.

Section 8. Note Register; Transfers. The Note shall be issued in registered form, payable to the registered owner. The District shall maintain a register containing the name of the registered owner and the owner's address.

The registered owner may transfer ownership of the Note by surrender of the Note to the District accompanied by a duly executed instrument of transfer in a form approved by the District. The District shall deliver to the transferee a new Note in the aggregate amount of the unpaid principal installments and shall record the transfer in the Note register.

Section 9. Tax Exemption. The District shall at all times do and perform all acts and things permitted by law that are necessary and desirable in order to assure that interest paid on the Note will be excluded from gross income for federal income tax purposes and shall take no action that would result in such interest not being so excluded. This covenant shall survive the payment in full of the Note.

Section 10. Designation as "Qualified Tax-Exempt Obligation." The Board reasonably anticipates that the District and all subordinate entities and all entities that issue obligations on its behalf will not issue more than ten million dollars of tax-exempt obligations (excluding private activity bonds) during the current calendar year. The Board hereby designates the Note as a qualified tax-exempt obligation within the meaning of Section 265(b)(3)(B) of the Internal Revenue Code of 1986.

Section 11. General Authorization. All actions heretofore taken by the officers and agents of the District with respect to the issuance and sale of the Note are hereby approved, and the Designated Officers and any and all other officers of the District are hereby authorized and directed, for and in the name and on behalf of the District, to do any and all things and take any and all actions related to the execution and delivery of any and all certificates, requisitions, agreements and other documents that they, or any of them, may deem necessary or advisable in order to consummate the lawful issuance, sale, and delivery of the Note.

Section 12. Effective Date. This resolution shall take effect immediately upon its adoption.

PASSED AND ADOPTED on August 8, 2003.

INDIAN VALLEY COMMUNITY
SERVICES DISTRICT

Nancy Lord
Chairperson, Board of Directors

ATTEST:

Sharol Robinson
Secretary