

A RESOLUTION OF THE COUNCIL OF THE CITY OF SALISBURY AUTHORIZING AND EMPOWERING CITY OF SALISBURY, PURSUANT TO THE AUTHORITY OF SECTIONS 9-1601 TO 9-1622, INCLUSIVE, OF THE ENVIRONMENT ARTICLE OF THE ANNOTATED CODE OF MARYLAND (WEST 2002, AS REPLACED, SUPPLEMENTED OR AMENDED), SECTIONS 31 TO 37, INCLUSIVE, OF ARTICLE 23A OF THE ANNOTATED CODE OF MARYLAND (WEST 2002, AS REPLACED, SUPPLEMENTED OR AMENDED), SECTION SC7-45 OF THE CHARTER OF THE CITY OF SALISBURY, AS PUBLISHED IN MUNICIPAL CHARTERS OF MARYLAND, VOLUME 6, 1990 REPLACEMENT EDITION, AS REPLACED, SUPPLEMENTED OR AMENDED, ORDINANCE NO. 1865, PASSED BY THE COUNCIL ON NOVEMBER 25, 2002, APPROVED BY THE MAYOR ON NOVEMBER 27, 2002 AND EFFECTIVE ON NOVEMBER 27, 2002, AND ORDINANCE NO. 1947, PASSED BY THE COUNCIL ON JULY 11, 2005, APPROVED BY THE MAYOR ON JULY 12, 2005 AND EFFECTIVE ON JULY 12, 2005 TO ISSUE AND SELL, UPON ITS FULL FAITH AND CREDIT, A GENERAL OBLIGATION INSTALLMENT BOND IN THE AGGREGATE PRINCIPAL AMOUNT OF FORTY-TWO MILLION NINE THOUSAND THREE HUNDRED FORTY-ONE DOLLARS (\$42,009,341) TO BE DESIGNATED "CITY OF SALISBURY WATER QUALITY BOND, SERIES 2005", THE BOND TO BE ISSUED AND SOLD AND THE PROCEEDS THEREOF TO BE USED AND APPLIED FOR THE PUBLIC PURPOSE OF FINANCING (INCLUDING BY REIMBURSING) ALL OR A PORTION OF THE COST OF VARIOUS ACTIVITIES RELATING TO UPGRADING AND IMPROVING THE CITY'S WASTEWATER TREATMENT PLANT AND SYSTEM, TOGETHER WITH THE ACQUISITION OF NECESSARY PROPERTY RIGHTS AND EQUIPMENT, RELATED SITE AND UTILITY IMPROVEMENTS, RELATED ARCHITECTURAL, FINANCIAL, LEGAL, PLANNING, DESIGN AND ENGINEERING EXPENSES AND COSTS OF ISSUANCE OF THE BOND; PRESCRIBING, APPROVING AND ADOPTING THE FORM AND TENOR OF THE BOND, THE TERMS AND CONDITIONS FOR THE ISSUANCE AND SALE OF THE BOND BY PRIVATE SALE, WITHOUT PUBLIC BIDDING, TO THE MARYLAND WATER QUALITY FINANCING ADMINISTRATION, AND ALL OTHER DETAILS INCIDENT THERETO, AND AUTHORIZING THE MAYOR, ON BEHALF OF THE CITY, TO ADJUST AND FIX CERTAIN DETAILS OF THE BOND; APPROVING, AND AUTHORIZING AND DIRECTING THE EXECUTION AND DELIVERY OF, A LOAN AGREEMENT WITH THE MARYLAND WATER QUALITY FINANCING ADMINISTRATION PURSUANT TO WHICH ADVANCES WILL BE MADE UNDER THE BOND; AUTHORIZING ANY ONE OF THE PRESIDENT OF THE COUNCIL OR THE VICE-PRESIDENT OF THE COUNCIL, TOGETHER WITH ANY ONE OF THE FINANCE DIRECTOR OR THE ASSISTANT FINANCE DIRECTOR, TO TAKE CERTAIN ACTIONS WITH RESPECT TO THE LOAN AGREEMENT, AND DESIGNATING ANY ONE OF THE PRESIDENT OF THE COUNCIL OR THE VICE-PRESIDENT OF THE COUNCIL, TOGETHER WITH ANY ONE OF THE FINANCE DIRECTOR OR THE ASSISTANT FINANCE DIRECTOR, AS AN "AUTHORIZED OFFICER" FOR PURPOSES OF THE LOAN AGREEMENT; PROVIDING FOR THE DISBURSEMENT OF ADVANCES OF THE BOND; PROVIDING THAT THE PRINCIPAL OF AND INTEREST ON THE BOND WILL BE PAYABLE IN THE FIRST INSTANCE FROM REVENUES RECEIVED BY THE CITY IN CONNECTION WITH THE OPERATION OF THE WASTEWATER SYSTEM SERVING THE CITY AND SURROUNDING AREAS; PROVIDING FOR THE LEVY AND COLLECTION OF AD VALOREM TAXES SUFFICIENT FOR THE PROMPT PAYMENT OF THE INSTALLMENTS OF PRINCIPAL OF AND INTEREST ON THE BOND; PLEDGING THE FULL FAITH AND CREDIT AND UNLIMITED TAXING POWER OF THE CITY TO THE PROMPT PAYMENT OF THE PRINCIPAL OF AND INTEREST ON THE BOND; PROVIDING THAT THE PRINCIPAL OF AND INTEREST ON THE BOND ALSO MAY BE PAID FROM ANY OTHER SOURCES OF REVENUE LAWFULLY AVAILABLE TO THE CITY FOR SUCH PURPOSE; AUTHORIZING AND DIRECTING OFFICIALS AND EMPLOYEES OF THE CITY TO TAKE ANY AND ALL ACTION NECESSARY TO COMPLETE AND CLOSE THE SALE AND DELIVERY OF THE BOND; MAKING OR PROVIDING FOR CERTAIN REPRESENTATIONS RELATING TO TAX MATTERS; PROVIDING THAT NOTWITHSTANDING ANYTHING TO THE CONTRARY CONTAINED IN ORDINANCE NO. 1865, ORDINANCE NO. 1947 OR THIS RESOLUTION, THE CITY SHALL USE AND APPLY PROCEEDS OF THE BOND ONLY AS PERMITTED BY THE LOAN AGREEMENT, THE CLEAN WATER ACT (AS DEFINED IN THE LOAN AGREEMENT) AND THE ACT (AS DEFINED IN THE LOAN AGREEMENT); AND OTHERWISE GENERALLY RELATING TO THE ISSUANCE, SALE, DELIVERY AND PAYMENT OF AND FOR THE BOND.

RECITALS

WHEREAS, City of Salisbury, a municipal corporation of the State of Maryland (the

City ), is authorized and empowered by Sections 9-1601 to 9-1622, inclusive, of the Environment Article of the Annotated Code of Maryland (West 2002, as replaced, supplemented or amended) (the "Environment Article"), Sections 31 to 37, inclusive, of Article 23A of the Annotated Code of Maryland (West 2002, as replaced, supplemented or amended) (the "Enabling Act") and Section SC7-45 of the Charter of the City of Salisbury, as published in Municipal Charters of Maryland, Volume 6, 1990 Replacement Edition, as replaced, supplemented or amended (the "Charter"), to borrow money for any proper public purpose in connection with the wastewater system serving the City and surrounding areas and to evidence such borrowing by the issuance and sale of its general obligation bonds; and

WHEREAS, pursuant to Ordinance No. 1865, passed pursuant to the Environment Article, the Enabling Act and the Charter by the Council on November 25, 2002, approved by the Mayor on November 27, 2002 and effective on November 27, 2002 ("Ordinance No. 1865"), the City authorized the issuance and sale, upon its full faith and credit, of one or more series of its general obligation bonds in an aggregate principal amount not to exceed Twenty-eight Million Dollars (\$28,000,000.00) (the "Authorized Bonds"), and the Ordinance provides that any such series may consist of one or more bonds and that any bond may be issued in installment form and/or draw-down form; and

WHEREAS, pursuant to Ordinance No. 1947, an ordinance supplementing Ordinance No. 1865, passed pursuant to the Environment Article, the Enabling Act and the Charter by the Council on July 11, 2005, approved by the Mayor on July 12, 2005 and effective on July 12, 2005 ("Ordinance No. 1947" and, collectively with Ordinance No. 1865, the "Ordinances"), the City increased the aggregate principal amount of the general obligation bonds authorized to be issued pursuant to Ordinance No. 1865 from an amount not to exceed Twenty-eight Million Dollars (\$28,000,000) to an amount not to exceed Forty-nine Million Dollars (\$49,000,000); and

WHEREAS, the Ordinances provide that the proceeds of the Authorized Bonds are to be used and applied for the public purpose of financing (including by reimbursing) or refinancing all or a portion of the cost of any one or more activities relating to upgrading and improving the City's wastewater treatment plant and system, including (without limitation) upgrading the existing trickling filter process, adding additional filter systems, improving the existing head-works, disinfection and sludge processing facilities and systems, and undertaking other improvements in order to facilitate biological nutrient removal and expand capacity, together with the acquisition of necessary property rights and equipment, related site and utility improvements, related architectural, financial, legal, planning, design, engineering and construction expenses, costs of issuance and, if the Council so determines pursuant to a subsequent resolution, interest during construction and for a reasonable period thereafter (collectively, the "Authorized Project"); and

WHEREAS, pursuant to the authority of the Enabling Act, the Environment Article, the Charter, Ordinance No. 1865 and Resolution No. 940, adopted, approved and effective on April 14, 2003, the City issued and sold to the Administration on April 17, 2003 its \$3,163,361.00 City of Salisbury Water Quality Bond, Series 2003 (the "Series 2003 Bond") in order to fund phase 1 costs of the Authorized Project; and

WHEREAS, after accounting for the issuance of the Series 2003 Bond, an additional \$45,836,639 of general obligation bonds may be issued for Authorized Project purposes pursuant to the authority of the Ordinances; and

WHEREAS, the City has determined that it is in the best interest of the City and its citizens to issue and sell to the Maryland Water Quality Financing Administration at this time a single general obligation installment bond in the principal amount of \$42,009,341 in order to finance a portion of the costs of the Authorized Project in accordance with, and pursuant to, the authority contained in the Environment Article, the Enabling Act, the Charter and the Ordinances, and upon the terms and conditions set forth in this Resolution, the proceeds of which general obligation installment bond are to be used and applied as herein set forth in connection with the Project (as hereinafter defined); and

WHEREAS, the Finance Director has advised that the issuance of the Bond provided for herein shall not cause the City to violate the debt limitation provisions of the Charter.

SECTION 1. NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Salisbury, Maryland that pursuant to the authority of the Environment Article, the Enabling Act, the Charter and the Ordinances, the City hereby determines to issue and sell, upon its full faith and credit, a general obligation installment bond for the public purpose of financing (including by reimbursing) all or a portion of the cost of any one or more activities relating to upgrading and improving the City's wastewater treatment plant and system, including (without limitation) upgrading the existing trickling filter process, adding additional filter systems, improving the existing head-works, disinfection and sludge processing facilities and systems, and undertaking

existing headworks, construction and sludge processing facilities and systems, and erecting other improvements in order to facilitate biological nutrient removal and expand capacity, together with the acquisition of necessary property rights and equipment, related site and utility improvements, related architectural, financial, legal, planning, design, engineering and construction expenses and costs of issuance (collectively, the "Project"). Such bond shall be issued in the aggregate principal amount of Forty-two Million Nine Thousand Three Hundred Forty-one Dollars (\$42,009,341) and shall be designated as "City of Salisbury Water Quality Bond, Series 2005" (the "Bond"). Although the Ordinances authorize the use of proceeds of the Authorized Bonds to pay interest during construction and for a reasonable period thereafter, the City will not use proceeds of the Bond for such purpose and such purpose is not included within the scope of activities detailed in the definition of the Project.

SECTION 2. BE IT FURTHER RESOLVED that (a) the Bond shall be issued and sold upon the full faith and credit of the City, shall be dated the date of its delivery, shall be numbered R-1 and shall be issued in the form of a single, fully-registered installment bond, without coupons attached.

(b) The principal advanced under the Loan Agreement (as hereinafter defined) shall be paid in installments on the dates and in the amounts as set forth in the following schedule, as such schedule may be revised in accordance with the terms of the Bond and the Loan Agreement:

Due February 1	Principal Amount	Due February 1	Principal Amount
2009	\$2,021,764.45	2019	\$2,104,106.29
2010	2,029,851.48	2020	2,112,522.72
2011	2,037,970.80	2021	2,120,972.76
2012	2,046,122.77	2022	2,129,456.65
2013	2,054,307.25	2023	2,137,974.50
2014	2,062,524.48	2024	2,146,526.42
2015	2,070,774.60	2025	2,155,112.54
2016	2,079,057.60	2026	2,163,732.99
2017	2,087,373.85	2027	2,172,387.87
2018	2,095,723.45	2028	2,181,077.53

(c) The Bond, or so much of the principal amount thereof as shall have been advanced from time to time under the terms of the Loan Agreement, shall bear interest from its dated date at an annual rate of interest equal to 10% of the average of the Bond Buyer 11-Bond Index for the calendar month prior to the month in which the initial advance of proceeds of the Bond occurs, provided that the rate determined by such calculation may be rounded down by the Maryland Water Quality Financing Administration (the "Administration") in its sole discretion. Interest due on the unpaid principal amounts advanced under the Loan Agreement shall accrue on the basis of a 30-day month, 360-day year from the date of the respective advances of such principal amount, and shall be paid on February 1, 2006, and semiannually thereafter on the 1st day of August and February in each year until the principal amount of the Bond has been paid.

(d) The payment dates and principal installments provided for in the foregoing subsections (b) and (c) are based on an anticipated date of issuance for the Bond occurring in September, 2005 and an interest rate payable on the Bond if the Bond is issued in September 2005, as determined pursuant to subsection (c) above, of four-tenths per centum (0.4%) per annum. Notwithstanding the foregoing, in the event the Bond, for whatever reason, is not issued in September 2005 the Mayor, on behalf of the City, is hereby authorized and directed to adjust such principal and interest payment dates and principal installment amounts (including, without limitation, by adjusting the dates on which principal and/or interest will be due and by adjusting such principal amounts set forth in subsection (b) above to reflect any change in the payment dates and the interest rate determined in accordance with subsection (c) above) as required by the Administration, in order to meet the requirements of Section 9-1605(d)(1)(ii) of the Environment Article or to meet other requirements of the Administration, such approval and adjustment to be evidenced conclusively by the Mayor's execution and delivery of the Bond.

(e) If the Administration determines at any time to reduce the maximum amount of the Loan Commitment (as defined in the Loan Agreement) in accordance with Section 3.08 of the Loan Agreement, the Maximum Principal Amount of the Bond (as defined in the Bond) shall be reduced accordingly and the Maximum Principal Amount as so reduced shall be amortized as provided in the Loan Agreement. In such event, as determined by the Administration, the City may execute and deliver (in the manner provided in Section 4 hereof for the original issuance of the Bond) a new Bond evidencing such reduction in the Loan Commitment or the Administration may deliver, and the Mayor, on behalf of the City, shall acknowledge in writing, a certificate setting forth such reamortized payment schedule (as adjusted as provided for in subsection (d) hereof), which

shall be attached to the Bond and shall replace and supersede for all purposes the foregoing payment schedule. The Mayor, on behalf of the City, is hereby authorized and directed to approve, execute and deliver any such certificate relating to a reamortized payment schedule and any other certificates, documents or evidence required by the Administration under Section 3.08 of the Loan Agreement.

(f) The City shall pay (i) a late charge for any payment of principal or interest on the Bond that is received later than the tenth (10th) day following its due date, in an amount equal to 5% of such payment, and (ii) interest on overdue installments of principal and (to the extent permitted by law) interest at the Default Rate provided for in the Loan Agreement, which Default Rate shall be equal to 100% of the average of the Bond Buyer 11-Bond Index for the calendar month prior to the month in which the initial advance of proceeds of the Bond occurs.

(g) Both the principal of and interest on the Bond will be paid to the registered owner in lawful money of the United States of America, at the time of payment, and will be paid by electronic funds transfer, or by check or draft mailed (by depositing such check or draft, correctly addressed and postage prepaid, in the United States mail before the payment date) to the registered owner at such address as the registered owner may designate from time to time by a notice in writing delivered to the Finance Director.

SECTION 3. BE IT FURTHER RESOLVED that the Bond shall be subject to mandatory prepayment, in whole or in part, as, when and to the extent required by the United States Environmental Protection Agency's (and its successors) State Revolving Fund Program Regulations. Otherwise, the Bond may be prepaid by the City, in whole or in part, only at such times and in such amounts, and upon payment by the City of such prepayment premium or penalty, as the Director of the Administration, in his or her discretion, may specify and approve.

SECTION 4. BE IT FURTHER RESOLVED that the Bond shall be executed in the name of the City and on its behalf by the Mayor. The corporate seal of the City shall be affixed to the Bond and attested by the signature of the City Clerk. In the event any official whose signature shall appear on the Bond shall cease to be such official prior to the delivery of the Bond, or, in the event any such official whose signature shall appear on the Bond shall have become such after the date of issue thereof, said Bond shall nevertheless be a valid and binding obligation of the City in accordance with its terms.

SECTION 5. BE IT FURTHER RESOLVED that the Bond shall be transferable only after the first principal payment date as set forth in the Bond or the date upon which the Maximum Principal Amount has been borrowed, whichever is earlier, upon the books of the City at the office of the Finance Director, by the registered owner in person or by his attorney duly authorized in writing, upon surrender thereof, together with a written instrument of transfer satisfactory to the Finance Director, duly executed by such registered owner or his duly authorized attorney. The City shall, within a reasonable time, issue in the name of the transferee a new registered bond or bonds, in such denominations as the City shall by resolution approve, in an aggregate principal amount equal to the unpaid principal amount of the bond or bonds surrendered and with the same maturities and interest rate. If more than one bond is issued upon any such transfer, the installment of principal and interest to be paid on each such bond on each payment date shall be equal to the product of the following formula: the total installment due on each payment date multiplied by a fraction, the numerator of which shall be the principal amount of such bond and the denominator of which shall be the aggregate principal amount of bonds then outstanding and unpaid. The new bond or bonds shall be delivered to the transferee only after payment of any taxes on and any shipping or insurance expenses relating to such transfer. The City may deem and treat the party in whose name the Bond is registered as the absolute owner thereof for the purpose of receiving payment of or on account of the principal thereof and interest due thereon and for all other purposes.

SECTION 6. BE IT FURTHER RESOLVED that except as provided hereinafter, the Bond shall be issued in substantially the form attached hereto as Exhibit A and incorporated by reference herein. Appropriate variations and insertions to provide dates, numbers and amounts, and modifications not altering its substance, including, without limitation, to reflect matters determined in accordance with Sections 2(b), (c), (d) and (f) hereof, may be made by the Mayor. All of the covenants contained in the form attached hereto as Exhibit A are hereby adopted by the City as and for the form of obligation to be incurred by the City, and the covenants and conditions are hereby made binding upon the City, including the promise to pay therein contained.

SECTION 7. BE IT FURTHER RESOLVED that the City hereby determines to sell the Bond by private sale, without public bidding, which sale by private sale is hereby deemed by the City to be in its best interest and in the interest of its citizens due, in part, to the benefit of negotiated flexible terms and the beneficial interest rate. Therefore, and pursuant to the authority of the Environment Article, the Enabling Act, the Charter and the Ordinances, the Bond shall be sold by



private sale, without public bidding, for a price of the par amount of the Bond (such purchase price to be advanced in accordance with the Loan Agreement) to the Administration, in accordance with the substantially final form of the Loan Agreement attached hereto as Exhibit B (the "Loan Agreement"), the terms and conditions of which Loan Agreement are hereby incorporated by reference herein and approved by and adopted as the obligation of the City. The Mayor is hereby authorized and directed to complete, execute and deliver the Loan Agreement for and in the name of the City with such changes, insertions and deletions not substantially altering the substance of the Loan Agreement as shall be approved by the Mayor, such approval to be evidenced conclusively by the Mayor's execution and delivery of the Loan Agreement. Notwithstanding anything to the contrary contained in this Resolution, advances under the Loan Agreement or the Bond and prepayment or payment of the principal of and interest on the Bond shall be made in accordance with the Loan Agreement. The City agrees to abide by and perform the covenants and agreements set forth in the Loan Agreement as though such covenants and agreements were set forth in full in this Resolution. The City hereby expressly acknowledges its absolute and unconditional obligation to make Administrative Fee payments to the Administration in accordance with the Loan Agreement.

SECTION 8. BE IT FURTHER RESOLVED that as soon as may be practicable after the adoption of this Resolution, the Bond shall be suitably prepared in definitive form, executed and delivered to the Administration contemporaneously with the receipt of the initial advance of the proceeds of the Bond. The Mayor, the City Administrator, the President of the Council, the Vice-President of the Council, the City Clerk, the Finance Director, the Assistant Finance Director and all other appropriate officials and employees of the City are expressly authorized, empowered and directed to take any and all action necessary to complete and close the sale and delivery of the Bond to the Administration and to negotiate, approve, execute and deliver all documents, certificates and instruments necessary or appropriate in connection therewith. Any one of the President of the Council or the Vice-President of the Council, together with any one of the Finance Director or the Assistant Finance Director, are hereby expressly authorized to take any necessary actions under the Loan Agreement or the Bond in order to requisition advances on behalf of the City. Any one of the President of the Council or the Vice-President of the Council, together with any one of the Finance Director or the Assistant Finance Director, are hereby expressly designated an "Authorized Officer" for purposes of the Loan Agreement.

SECTION 9. BE IT FURTHER RESOLVED that each advance of the proceeds of the Bond shall be paid directly to the City and shall be deposited by the Finance Director or other appropriate City official in the proper municipal accounts, or shall be paid at the direction of the Authorized Officer, or shall be paid as otherwise required by the Administration. Advances under the Bond shall be used and applied by the City exclusively and solely for the public purpose described in Section 1 hereof. Nothing in this Resolution shall be construed to authorize the expenditure of any moneys except for a proper public purpose.

SECTION 10. BE IT FURTHER RESOLVED that (a) the principal of and interest on the Bond will be payable in the first instance from revenues received by the City in connection with the operation of the wastewater system serving the City and surrounding areas. In the event such moneys are insufficient in any fiscal year to provide for the prompt payment, when due, of the principal of and interest on the Bond, the City shall levy or cause to be levied, for each and every fiscal year during which the Bond may be outstanding, ad valorem taxes upon all real and tangible personal property within its corporate limits subject to assessment for unlimited municipal taxation in rate and amount sufficient to provide for the payment, when due, of the principal of and interest on the Bond payable in each such fiscal year and, in the event the proceeds from the collection of the taxes so levied may prove inadequate for such purposes in any fiscal year, additional taxes shall be levied in the subsequent fiscal year to make up any deficiency.

(b) The full faith and credit and unlimited taxing power of the City are hereby irrevocably pledged to the prompt payment of the principal of and interest on the Bond as and when the same are payable and to the levy and collection of the taxes hereinabove described as and when such taxes may become necessary in order to provide sufficient funds to meet the debt service requirements of the Bond. The City hereby covenants with the registered owner of the Bond to take any action that may be appropriate from time to time during the period that the Bond remains outstanding and unpaid to provide the funds necessary to pay promptly the principal and interest due thereon.

(c) The foregoing provisions shall not be construed so as to prohibit the City from paying the principal of and interest on the Bond from the proceeds of the sale of any other obligations of the City or from any other funds legally available for that purpose. The City may apply to the payment of the principal of or interest on the Bond any funds received by it from the State of Maryland or the United States of America, or any governmental agency or instrumentality, or from any other source, if such funds are granted or paid to the City for the purpose of assisting

the City in accomplishing the type of project or projects which the Bond is issued to finance, and to the extent of any such funds received or receivable in any fiscal year, the taxes hereby required to be levied may be reduced proportionately.

SECTION 11. BE IT FURTHER RESOLVED that (a) the Mayor and the Finance Director are the officials of the City responsible for the issuance of the Bond within the meaning of Section 1.148-2(b)(2) of the Arbitrage Regulations (defined below). The Mayor and the Finance Director also shall be the officials of the City responsible for the execution and delivery (on the date of the issuance of the Bond) of a certificate of the City (the "Section 148 Certificate") that complies with the requirements of Section 148 ("Section 148") of the Internal Revenue Code of 1986, as amended (the "Code"), and the applicable regulations thereunder (the "Arbitrage Regulations"). Such officials are hereby authorized and directed to execute and deliver the Section 148 Certificate to counsel rendering an opinion on the validity and tax-exempt status of the Bond on the date of the issuance of the Bond.

(b) The City shall set forth in the Section 148 Certificate its reasonable expectations as to relevant facts, estimates and circumstances relating to the use of the proceeds of the Bond or of any monies, securities or other obligations to the credit of any account of the City which may be deemed to be proceeds of the Bond pursuant to Section 148 or the Arbitrage Regulations (collectively, the "Bond Proceeds"). The City covenants with the registered owner of the Bond that the facts, estimates and circumstances set forth in the Section 148 Certificate will be based on the City's reasonable expectations on the date of issuance of the Bond and will be, to the best of the certifying officials' knowledge, true and correct as of that date.

(c) The City covenants with the registered owner of the Bond that it will not make, or (to the extent that it exercises control or direction) permit to be made, any use of the Bond Proceeds that would cause the Bond to be an "arbitrage bond" within the meaning of Section 148 and the Arbitrage Regulations, and that it will comply with those provisions of Section 148 and the Arbitrage Regulations as may be applicable to the Bond on the date of the issuance of the Bond, and which may subsequently lawfully be made applicable to the Bond, as long as the Bond remains outstanding and unpaid.

SECTION 12. BE IT FURTHER RESOLVED that the City specifically covenants that it will comply with the provisions of the Code applicable to the Bond, including, without limitation, compliance with provisions regarding the timing of the expenditure of the proceeds of the Bond, the use of such proceeds and the facilities financed with such proceeds, the restriction of investment yields, the filing of information with the Internal Revenue Service and the rebate of certain earnings resulting from the investment of the proceeds of the Bond. The City further covenants that it shall make such use of the proceeds of the Bond, regulate the investment of the proceeds thereof and take such other and further actions as may be required to maintain the exemption from federal income taxation of interest on the Bond. All officers, employees and agents of the City are hereby authorized and directed to provide such certifications of facts and estimates regarding the amount and use of the proceeds of the Bond as may be necessary or appropriate.

SECTION 13. BE IT FURTHER RESOLVED that notwithstanding anything to the contrary contained in the Ordinances or this Resolution, the City shall use and apply proceeds of the Bond only as permitted by the Loan Agreement, the Clean Water Act (as defined in the Loan Agreement) and the Act (as defined in the Loan Agreement).

SECTION 14. BE IT FURTHER RESOLVED that the issuance, sale and delivery of the Bond shall not cause the City to violate the debt limit provisions of Section SC7-48 of the Charter.

SECTION 15. BE IT FURTHER RESOLVED that this Resolution shall become effective following approval by the Mayor.

[CONTINUED ON NEXT PAGE]

Page Break

THIS RESOLUTION was introduced, read and adopted at a meeting of the Council of the City of Salisbury held on the \_\_\_\_\_ day of \_\_\_\_\_, 2005.

ATTEST:

Brenda J. Colegrove  
CITY CLERK

Michael P. Dunn  
PRESIDENT, City Council

Approved by me this \_\_\_\_\_ day of \_\_\_\_\_, 2005.

Barrie P. Tilghman  
MAYOR, City of Salisbury

#82322-58111.003

Section Break (Next Page)

EXHIBIT A

FORM OF BOND

\$ \_\_\_\_\_

R-1

REGISTERED

UNITED STATES OF AMERICA  
STATE OF MARYLAND

CITY OF SALISBURY  
WATER QUALITY BOND, SERIES 2005  
Dated \_\_\_\_\_, 2005

PAYMENTS OF PRINCIPAL AND INTEREST ON THIS BOND ARE MADE BY CHECK, DRAFT OR ELECTRONIC FUNDS TRANSFER TO THE REGISTERED OWNER AND IT CANNOT BE DETERMINED FROM THE FACE OF THIS BOND WHETHER ALL OR ANY PART OF THE PRINCIPAL OF OR INTEREST ON THIS BOND HAS BEEN PAID.

REGISTERED OWNER: Maryland Water Quality Financing Administration

City of Salisbury, a municipal corporation of the State of Maryland (the "Borrower"), hereby acknowledges itself obligated to pay to the Registered Owner shown above, the principal amount of \$42,009,341 (the "Maximum Principal Amount") or so much thereof as shall have been advanced from time to time under the terms of the Loan Agreement dated as of \_\_\_\_\_, 2005 (the "Loan Agreement") by and between the Borrower and the Maryland Water Quality Financing Administration (the "Administration"), plus interest on the unpaid principal advanced under the terms of the Loan Agreement at the rate of four-tenths per centum (0.4%) per annum.

The principal advanced under the Loan Agreement shall be paid in installments on the dates and in the amounts as set forth in the following schedule, as such schedule may be amended in accordance with the terms hereof:

Page Break

Due February 1	Principal Amount	Due February 1	Principal Amount
2009	\$2,021,764.45	2019	\$2,104,106.29
2010	2,029,851.48	2020	2,112,522.72
2011	2,037,970.80	2021	2,120,972.76
2012	2,046,122.77	2022	2,129,456.65
2013	2,054,307.25	2023	2,137,974.50
2014	2,062,524.48	2024	2,146,526.42
2015	2,070,774.60	2025	2,155,112.54
2016	2,079,057.60	2026	2,163,732.99
2017	2,087,373.85	2027	2,172,387.87
2018	2,095,722.45	2028	2,181,077.52

If the Administration determines at any time to reduce the maximum amount of the Loan Commitment (as defined in the Loan Agreement) in accordance with Section 3.08 of the Loan Agreement, the Maximum Principal Amount shall be reduced accordingly and the Maximum Principal Amount as so reduced shall be amortized in accordance with Section 3.08 of the Loan Agreement. The Administration shall deliver, and the Borrower shall acknowledge in writing, a certificate setting forth such re-amortized payment schedule, which shall be attached hereto and shall replace and supersede for all purposes the foregoing payment schedule. Any such reduction shall not affect the obligation of the Borrower to pay the principal of and interest on this bond as and when the same shall become due.

Notwithstanding the foregoing, all outstanding unpaid principal amounts advanced under the Loan Agreement, if not previously due hereunder, shall be due on that date which is 20 years after the date of completion of the Project (as defined in the Loan Agreement), as certified by the Borrower to the Administration pursuant to Section 2.02(d) of the Loan Agreement.

Interest due on the unpaid principal amounts advanced under the Loan Agreement shall accrue on the basis of a 30-day month, 360-day year from the date of the respective advances of such principal amount, and shall be paid on February 1, 2006, and semiannually thereafter on the 1st day of August and February in each year until the principal amount hereof has been paid.

This bond is subject to prepayment only in accordance with Section 3.10 of the Loan Agreement.

Both the principal of and interest on this bond will be paid to the registered owner in lawful money of the United States of America, at the time of payment, and will be paid by electronic funds transfer, or by check or draft mailed (by depositing such check or draft, correctly addressed and postage prepaid, in the United States mail before the payment date) to the registered owner at such address as the registered owner may designate from time to time by a notice in writing delivered to the Finance Director.

This bond is issued pursuant to and in full conformity with the provisions of Sections 31 to 37, inclusive, of Article 23A of the Annotated Code of Maryland, as amended, Sections SC7-45 of the Charter of the City of Salisbury, as published in Municipal Charters of Maryland, Volume 6, 1990 Replacement Edition, as amended, and the Maryland Water Quality Financing Administration Act (codified as Sections 9-1601 to 9-1622, inclusive, of the Environment Article of the Annotated Code of Maryland, as amended), and by virtue of due proceedings had and taken by the Borrower, particularly Ordinance No. 1865, passed by the Council of the Borrower on November 25, 2002, approved by the Mayor on November 27, 2002 and effective on November 27, 2002, Ordinance No. 1947, passed by the Council of the Borrower on July 11, 2005, approved by the Mayor on July 12, 2005 and effective on July 12, 2005 and Resolution No. \_\_\_\_\_, adopted by the Council of the Borrower on \_\_\_\_\_, 2005, approved by the Mayor on \_\_\_\_\_, 2005 and effective on \_\_\_\_\_, 2005 (collectively, the "Resolution").

This bond, together with the Loan Agreement, evidences the Loan (as defined in the Loan Agreement) to the Borrower from the Maryland Water Quality Financing Administration. In accordance with the Loan Agreement, the principal amount of the Loan, being the amount denominated as principal under this bond, is subject to reduction or adjustment by the Administration in accordance with the Loan Agreement.

The full faith and credit and unlimited taxing power of the Borrower are hereby irrevocably pledged to the prompt payment of the principal of and interest on this bond according to its terms, and the Borrower does hereby covenant and agree to pay the principal of and interest on this bond at the dates and in the manner prescribed herein.

This bond is transferable only after the first principal payment date as set forth above or the date upon which the Maximum Principal Amount has been borrowed, whichever is earlier, upon the books of the Borrower at the office of the Finance Director by the registered owner hereof in person or by his attorney duly authorized in writing, upon surrender hereof, together with a written instrument of transfer satisfactory to the Finance Director, duly executed by the registered owner or his duly authorized attorney. The Borrower shall, within a reasonable time, issue in the name of the transferee a new registered bond or bonds, in such denominations as the Borrower shall by resolution approve, in an aggregate principal amount equal to the unpaid principal amount of the bond or bonds surrendered and with the same maturities and interest rate. If more than one bond is issued upon any such transfer, the installment of principal and interest to be paid on each such bond on each payment date shall be equal to the product of the following formula: the total installment due on each payment date multiplied by a fraction, the numerator of which shall be the principal amount of such bond and the denominator of which shall be the



.....  
aggregate principal amount of bonds then outstanding and unpaid. The new bond or bonds shall be delivered to the transferee only after payment of any taxes on and any shipping or insurance expenses relating to such transfer. The Borrower may deem and treat the party in whose name this bond is registered as the absolute owner hereof for the purpose of receiving payment of or on account of the principal hereof and interest due hereon and for all other purposes.

It is hereby certified and recited that all conditions, acts and things required by the Constitution or statutes of the State of Maryland and the Resolution to exist, to have happened or to have been performed precedent to or in the issuance of this bond, exist, have happened and have been performed, and that the issuance of this bond, together with all other indebtedness of the Borrower, is within every debt and other limit prescribed by said Constitution or statutes.

IN WITNESS WHEREOF, this bond has been executed by the manual signature of the Mayor and the seal of the Borrower has been affixed hereto, attested by the manual signature of the City Clerk, all as of the \_\_\_\_\_ day of \_\_\_\_\_, 2005.

(SEAL)

ATTEST:

CITY OF SALISBURY

\_\_\_\_\_  
City Clerk

\_\_\_\_\_  
Mayor

..... Section Break (Next Page) .....

EXHIBIT B

FORM OF LOAN AGREEMENT

[See Attached]

—