MAYOR AND COUNCIL AGENDA

NO. 15

DEPT.: Finance
STAFF CONTACT: Gavin Cohen

DATE PREPARED: July 21, 2005
FOR MEETING OF: August 1, 2005

SUBJECT:

Introduction and adoption of Ordinance to authorize the issuance and negotiated sale of General Obligation Water Quality Bonds of 2005, in an amount not to exceed $1,500,000 for the purpose of financing the construction of the Woottons Mill Stream restoration project pursuant to the City's Capital Improvement Program (CIP), and related issuance costs.

RECOMMENDATION:

Staff recommends that this ordinance be introduced and adopted at the meeting of August 1, 2005. If the Mayor and Council wish to introduce the ordinance and proceed to adoption at the same meeting, the ordinance should first be introduced, then a motion should be made to waive the layover period. If the motion to waive the layover period is approved by an affirmative vote of four members of the Mayor and Council, the Council may then proceed to move to adopt the attached ordinance.

DISCUSSION:

The adoption of the ordinance will allow staff to proceed with the issuance and sale of general obligation water quality bonds to finance necessary improvements for the Woottons Mill Park Stream Restoration project in accordance with the City's CIP program (projects 330-850-2J59 and 330-850-2H59). The bonds are for a nineteen-year term at 0% interest and with no administration costs. The bond sale will be a private negotiated sale with the Maryland Water Quality Financing Administration.

The ordinance authorizes a not to exceed amount of $1,500,000, whereas the actual loan agreement will initially be for $1,381,600, which approximates the actual construction costs. Staff will be able to access the additional $118,400 if needed during the course of construction.

FISCAL IMPACT:

The issuance of this new debt, and the impact on City finances, were estimated and included in the cash flows and debt ratios calculated for the FY 2006 adopted budget.

PREPARED BY:

Gavin Cohen, Finance Director — Date

APPROVE: Scott Ullery, City Manager — Date

LIST OF ATTACHMENTS:

1. Ordinance authorizing the sale of general obligation water revenue bonds of 2005
2. MDE correspondence from June 9, 2005
3. MDE correspondence from January 25,2005
4. Loan Repayment Schedule

THE MAYOR AND COUNCIL OF ROCKVILLE

Ordinance No. _____

AN ORDINANCE of The Mayor and Council of Rockville to authorize, pursuant to the authority of Article 23A of the Annotated Code of Maryland (2001 Replacement Volume and 2004 Supplement), as amended, Subtitle 16 of Title 9 of the Environment Article of the Annotated Code of Maryland (1996 Replacement Volume and 2004 Supplement), as amended, and Article VII, Section 11 of the Charter of the City of Rockville, as amended, the issuance and sale, upon its full faith and credit, of its general obligation, fully registered bonds in aggregate principal amount not to exceed One Million Five Hundred Thousand Dollars ($1,500,000), to be designated as "The Mayor and Council of Rockville, Maryland Water Quality Bond, Series 2005"; said bonds to be issued and sold for the public purpose of (i) financing and refinancing all or a portion of the costs of the Woottons Mill Park Stream Restoration project; and (ii) paying the costs incurred by The Mayor and Council of Rockville (the "City") in connection with the issuance, sale and delivery of said bonds; determining other matters relating to the issuance and sale of such bonds; determining that the best interests of the City will be served by selling such bonds at a private (negotiated) sale to the Maryland Water Quality Financing Administration (the "Administration"); authorizing and directing the Mayor and the City Manager to enter into agreements with the Administration; determining all other details in connection with said sale; providing for the disbursement of the proceeds of said bonds; providing for the levy and collection of all *ad valorem* taxes necessary to provide for the payment of the principal of said bonds as they become due, such taxes to be levied upon all property subject to assessment for unlimited municipal taxation within the corporate limits of the City of Rockville; authorizing the City Manager to provide for a debt service reserve fund for the 2005 Bonds; appointing a paying agent and registrar for said bonds; and generally providing for the issuance, sale and delivery of all said bonds.

RECITALS

For convenience of reference, The Mayor and Council of Rockville, a municipal corporation of the State of Maryland, is hereinafter referred to as the "City."

The authority for the powers herein exercised is contained in Article VII, Section 11 of the Charter of the City of Rockville (hereinafter sometimes referred to as the "Charter"), in Article 23A of the Annotated Code of Maryland (2001 Replacement Volume and 2004 Supplement), as amended (the "City Enabling Act"), and in Subtitle 16 of Title 9 of the Environment Article of the Annotated Code of Maryland (1996 Replacement Volume and 2004 Supplement), as amended (the "MWQFA Act"), such authority being hereinafter sometimes referred to collectively as the "Enabling Act."

The Enabling Act enables the City to issue bonds for the purpose of financing and refinancing the costs of capital projects, and to sell such bonds at private (negotiated) sale to the Administration.

The City finds and determines that selling bonds to the Administration at private (negotiated) sale pursuant to the terms of the MWQFA Act will allow the City to take advantage of below-market interest rates subsidized by the State of Maryland and the United States government, and will thereby afford the City substantial savings in its capital construction program.

The City finds it to be in the public interest to borrow money to (i) finance and refinance all or a portion of the costs of the Woottons Mill Park Stream Restoration project; and (ii) pay the costs incurred by the City in connection with the issuance, sale and delivery of said bonds.

NOW, THEREFORE, BE IT ORDAINED BY THE MAYOR AND COUNCIL OF ROCKVILLE, that:

Section 1: Acting pursuant to the authority of Article 23A of the Annotated Code of Maryland (2001 Replacement Volume and 2004 Supplement), as amended (the "City Enabling Act"), Subtitle 16 of Title 9 of the Environment Article of the Annotated Code of Maryland (1996 Replacement Volume and 2004 Supplement) (the "MWQFA Act"), and Article VII, Section 11 of the Charter of the City of Rockville (the "Charter") (collectively, the "Enabling Act"), the City hereby determines that the net proceeds from the sale of its Water Quality Bond, Series 2005, authorized to be issued and sold by this Ordinance (the "2005 Bonds"), shall be used and applied to (i) financing and refinancing all or a portion of the costs of the Woottons Mill Park Stream Restoration project (the "Project"); and (ii) pay the costs incurred by the City in connection with the issuance, sale and delivery of said bonds.

Section 2: It is hereby determined that the City shall borrow money and incur indebtedness for the purposes set forth in this Ordinance. To evidence such borrowing and indebtedness and acting pursuant to the authority of the Enabling Act, the City shall issue and

sell, upon its full faith and credit, its general obligation, fully registered bonds in an aggregate principal amount not to exceed One Million Five Hundred Thousand Dollars ($1,500,000), said issue of bonds to be known as "The Mayor and Council of Rockville, Maryland Water Quality Bond, Series 2005." The City Manager of the City is hereby authorized and directed to determine the aggregate principal amount of the 2005 Bonds to be issued, in order to further the best interests of the City.

Section 3: The 2005 Bonds shall all be dated as specified by the City Manager by bond order. The Bond Registrar (hereinafter designated) may make such additional provision for numbering, including additional prefixes and suffixes, as it may deem appropriate. The 2005 Bonds shall mature or otherwise be payable on such days, in such years and in such principal amounts as the City Manager shall determine, in order to further the best interests of the City.

Section 4: The City Manager is hereby authorized and directed to specify such optional or mandatory redemption or prepayment features with respect to the 2005 Bonds as he may deem to be in the best interests of the City.

If less than all of the 2005 Bonds of any one maturity are called for redemption, the particular 2005 Bonds or portion thereof to be redeemed from such maturity shall be selected by lot by the Bond Registrar in such manner as the Bond Registrar in its sole discretion may determine.

If, in accordance with the foregoing option, the City elects to redeem all outstanding 2005 Bonds, or less than all, it will give a redemption notice by letter mailed first class, postage prepaid, to the registered owners of the 2005 Bonds to be redeemed at least thirty (30) days and not more than sixty (60) days prior to the redemption date, at the addresses of such owners appearing on the registration books kept by the Bond Registrar; provided, however, that the failure to mail any such notice or any defect in the notice so mailed or the mailing thereof shall not affect the validity of any redemption proceedings. Such notice shall state for all 2005 Bonds being redeemed: maturity date, certificate numbers, redemption date, redemption price, whether the 2005 Bonds are being redeemed in whole or in part and shall also state that on the redemption date the redemption price shall become due and payable and shall require that the 2005 Bonds so called be presented for redemption and payment at the principal corporate trust office of the Paying Agent.

The City may also provide such further notices and take such further actions as it deems necessary in connection with such redemption, including any such notices or actions as are required by the Securities and Exchange Commission or by the Municipal Securities Rulemaking Board.

Upon presentation and surrender in compliance with said notices, the 2005 Bonds so called for redemption shall be paid by the Paying Agent (hereinafter designated) at the redemption price. All 2005 Bonds redeemed and paid hereunder will be canceled.

Section 5: As provided in the Loan Agreement (defined below), the 2005 Bonds shall not bear interest.

All 2005 Bonds shall be executed in the name of the City and on its behalf by the Mayor of Rockville. Such signature of the Mayor of Rockville may be manually affixed or may be imprinted on such 2005 Bonds by facsimile; either a facsimile or an original of the corporate seal of Rockville shall also be imprinted thereon, attested by the manual or facsimile signature of the Clerk of Rockville.

There shall accompany the 2005 Bonds the approving legal opinion of Venable LLP, Bond Counsel, with respect to such 2005 Bonds.

In the event any official whose signature shall appear on such 2005 Bonds shall cease to be such official prior to the delivery of the 2005 Bonds, or in the event any such official whose signature shall appear on the 2005 Bonds shall have become such after the date of issue thereof, the 2005 Bonds shall nevertheless be valid and legally binding obligations of the City in accordance with their terms.

All 2005 Bonds shall be issued as fully registered bonds without coupons, and shall be registered in the name or names of the owner or owners thereof, on books kept for such purpose at the principal office of the Bond Registrar. Payment of the principal of the 2005 Bonds shall be made to the persons in whose names such 2005 Bonds are registered on the registration books maintained by the Bond Registrar as the registered owners thereof, such principal to be payable at the principal office of the Paying Agent upon presentation and surrender of such 2005 Bonds as the same become due and payable.

The City is hereby designated as the Bond Registrar and as the Paying Agent for the 2005 Bonds, subject to further action by the City.

Section 6: Except as provided hereinafter or in ordinances or resolutions of The Mayor and Council of Rockville adopted prior to the issuance and delivery of the 2005 Bonds, all 2005 Bonds shall be substantially in the form specified by the Administration, with appropriate insertions as therein indicated. The City Manager of the City shall be and is hereby authorized to make such changes in such form as the City Manager shall deem necessary to carry into effect the purposes of this Ordinance or to comply with recommendation of legal counsel; provided, however, that the City Manager shall make no change affecting the substance of the 2005 Bonds authorized by this Ordinance.

Section 7: It is hereby determined that it is in the best interests of the City to sell the 2005 Bonds at private (negotiated) sale to the Administration pursuant to the MWQFA Act. The Mayor and the City Manager of the City are each hereby authorized and directed to enter into such agreements with the Administration (including, without limitation, the Loan Agreement referred to below) as either of them shall deem to be in the best interests of the City in order to accomplish the public purposes of this Ordinance.

Notwithstanding anything herein to the contrary, as contemplated by the MWQFA Act, the borrowing and indebtedness represented by the 2005 Bonds shall be made and incurred in accordance with the provisions of the Loan Agreement (the "Loan Agreement"), between the

City and the Administration. The Loan Agreement shall be in substantially the form set forth in Exhibit A attached hereto, with such insertions, omissions or variations as may be deemed necessary or appropriate and approved by the Mayor or such other designated officer executing the same (their execution of the Loan Agreement to constitute conclusive evidence of such approval). The City hereby approves the form of and authorizes the execution and delivery of the Loan Agreement in substantially the form set forth in Exhibit A. Said Loan Agreement and all the covenants and conditions set forth therein are hereby approved and adopted as the obligation of the City. The City shall use and apply proceeds of the Bonds only as permitted by the Loan Agreement and the MWQFA Act.

The 2005 Bonds will be suitably prepared and duly executed and delivered to the Administration, at such time and place as may be agreed upon between the Administration and the City, upon payment of the purchase price of the 2005 Bonds.

Section 8: (a) The City shall apply such amount of the proceeds of the 2005 Bonds as shall be deemed necessary by the Director of Finance to the Woottons Mill Park Stream Restoration project. Such amounts shall be invested upon the direction of the Director of Finance, pending their application in accordance with the provisions hereof.

(b) The Director of Finance shall apply proceeds of the 2005 Bonds to the payment of the costs of issuance thereof. Such amounts shall be invested upon the direction of the Director of Finance, pending their application in accordance with the provisions hereof.

Section 9: For the purpose of paying the principal of the 2005 Bonds authorized to be issued by this Ordinance, the City shall levy or cause to be levied, and there is hereby levied, in each and every fiscal year in which any of the 2005 Bonds are outstanding, an *ad valorem* tax or taxes upon all of the legally assessable property within the corporate limits of the City in rate and amount sufficient to provide for the payment, when due, of the principal of all of the 2005 Bonds maturing in each such fiscal year, and, in the event the proceeds from the taxes so levied in each such fiscal year shall prove inadequate for the above purposes, additional taxes shall be, and are hereby, levied in the subsequent fiscal year to make up any deficiency. It is the intent of this Ordinance that the rate of said *ad valorem* taxes shall be so computed in each fiscal year that the proceeds of such *ad valorem* taxes, together with any other funds then lawfully available for the purpose, shall provide sufficient funds to meet said maturing principal of all of the 2005 Bonds.

The full faith and credit and unlimited taxing power of the City are hereby irrevocably pledged to the payment to maturity of the principal of the 2005 Bonds authorized by this Ordinance as and when the same respectively mature 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 2005 Bonds hereby authorized to be issued. The City hereby solemnly covenants and agrees with each registered owner (from time to time) of the 2005 Bonds to levy and collect the taxes hereinabove described and to take any other action that may be appropriate from time to time during the period that any of the 2005 Bonds remain outstanding and unpaid to provide the funds necessary to make principal payments thereon.

Section 10: The City Manager is hereby authorized to establish a debt service reserve account (the "DSRA") with respect to the 2005 Bonds, in such amount and on such terms as may be required by the Administration to consummate the transactions contemplated by this Ordinance. The DSRA will be in the amount of $75,000. The DSRA will be restricted and dedicated solely for the purpose of payment of the City's payment obligations with respect to the 2005 Bonds. The DSRA will be reflected as a distinct and verifiable line item in the City's independently audited financial statements and may be drawn upon only with the Administration's prior written consent. The balance of the DSRA will be maintained at the level of $75,000 until all of the City's enterprise funds achieve a positive cash flow after meeting all payment obligations with respect to the Bonds for three consecutive years following completion of the Project, as evidenced by the City's independently audited financial statements. Thereafter, the amount of the DSRA may be adjusted annually by the written mutual agreement of the Administration and the City. The DSRA may be maintained by the City and may be invested in a manner similar to other invested accounts. All income earned on the DSRA will be to the benefit of the City. Notwithstanding the foregoing provisions of this Section 10, the City Manager is authorized to determine, by written order or otherwise, (i) the amount of the DSRA, (ii) the custodian of the DSRA, (iii) the manner of valuing and investing the DSRA, (iv) the terms and conditions upon which the DSRA may be applied to the payment of debt service on the 2005 Bonds or otherwise released, and (v) such other matters as the City Manager may deem to be advisable to accomplish the purposes of this Ordinance.

Section 11: This Ordinance shall take effect from and after the date of final passage.

THE FOREGOING ORDINANCE was introduced at a meeting of the Mayor and Council of Rockville held on the __ day of _____, 2005, and, its title having been included on the published agenda for the meeting of _____, 2005, and all other requirements of law for published notice or hearing having been complied with, was finally passed by the Mayor and Council of Rockville on the ___ day of _____, 2005.

* * * * * * * * * * *

I HEREBY CERTIFY that the foregoing is a true and correct copy of an Ordinance adopted by the Mayor and Council at its meeting of _____, 2005.

_____
City Clerk

LOAN AGREEMENT

By and Between

MARYLAND WATER QUALITY
FINANCING ADMINISTRATION

and

"Insert Name of Entity"

Dated as of , 2005

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LOAN AGREEMENT

THIS LOAN AGREEMENT, made this day of , 2005 between the Maryland Water Quality Financing Administration (the "Administration"), a unit of the Department of the Environment (the "Department") of the State of Maryland (the "State"), and "Insert Name of Entity", a of the State (the "Borrower").

RECITALS

Title VI of the Federal Water Pollution Control Act (commonly known as the "Clean Water Act"), as amended by the Water Quality Act of 1987 ("Title VI"), authorizes the Environmental Protection Agency ("EPA") to award grants to qualifying States to establish and capitalize State water pollution control revolving funds ("SRFs") for the purpose of providing loans and certain other forms of financial assistance (but not grants) to finance, among other things, the construction and improvement of publicly-owned wastewater treatment facilities and the implementation of estuary conservation management plans and nonpoint source management programs.

As contemplated by Title VI, the General Assembly of the State at its 1988 session enacted the Maryland Water Quality Financing Administration Act, codified at Sections 9-1601 through 9-1622 of the Environment Article of the Annotated Code of Maryland, as amended (the "Act"), establishing an SRF designated the Maryland Water Quality Revolving Loan Fund (the "Fund") to be maintained and administered by the Administration. The Act authorizes the Administration, among other things, to make a loan from the Fund to a "local government" (as defined in the Act) for the purpose of financing all or a portion of the cost of a "wastewater facility" project (as defined in the Act).

The Borrower, which is a "local government" within the meaning of the Act, has applied to the Administration for a loan from the Fund to assist in the financing of a certain project or projects of the Borrower (the "Project," as defined herein) which constitutes a "wastewater facility" within the meaning of the Act. The Project is one designated for funding in an Intended Use Plan promulgated by the Administration in accordance with regulations issued by the EPA pursuant to Title VI, and the Project conforms to the applicable "county plan" adopted pursuant to the requirements of Subtitle 5 of Title 9 of the Environment Article of the Annotated Code of Maryland, as amended.

The Director of the Administration has determined that the making of a loan to the Borrower for the purpose of assisting the financing of the Project, on the terms and conditions hereinafter set forth, is necessary and desirable in the public interest, will promote the health, safety and welfare of the inhabitants of the State and the United States by assisting in the prevention of pollution of the environment, and will further the purposes of Title VI and the Act.

NOW THEREFORE, in consideration of the mutual promises and covenants hereinafter set forth and other good and valuable consideration, the receipt and sufficiency of which

are hereby acknowledged, the Borrower and the Administration, each intending to be legally bound, hereby agree as follows:

ARTICLE I

DEFINITIONS

Section 1.01. Definitions. Unless specifically provided otherwise or the context otherwise requires, when used in this Agreement:

"Act" means the Maryland Water Quality Financing Administration Act, Sections 9-1601 through 9-1622 of the Environment Article, Annotated Code of Maryland, and all acts supplemental thereto or amendatory thereof.

"Administration" means the Maryland Water Quality Financing Administration, a unit of the Department of the Environment of the State, and its successors and assigns.

"Administrative Fee" means the fee payable by the Borrower pursuant to this Agreement for the general administrative services and other functions and expenses of the Administration.

"Agreement" means this Loan Agreement, including the Exhibits attached hereto and any amendments hereto.

"Application" means the application for the Loan submitted by the Borrower to the Administration, together with any amendments thereto.

"Authorized Officer" means, in the case of the Borrower, any person authorized by law or by a resolution of the governing body of the Borrower to perform any act or execute any document.

"Board" means the Board of Public Works of the State.

"Bonds" means any series of revenue bonds issued by the Administration under the Act.

"Borrower" means the local government (as defined in the Act) that is identified in the first paragraph of this Agreement, and its successors and assigns.

"Business Day" means a day other than a Saturday, Sunday, or day on which the offices of the Administration or commercial banks in the State are authorized or obligated to remain closed.

"Change Orders" means any amendments or modifications to any Plans and Specifications or any general construction contract for the Project.

"Clean Water Act" means the Water Pollution Control Act of 1972, PL 92-500, as amended, 33 U.S.C. ∋1251 et seq., and rules and regulations promulgated thereunder.

"Default" means an event or condition the occurrence of which would, with the lapse of time or the giving of notice or both, constitute an Event of Default.

"Department" means the Maryland Department of the Environment, and its successors.

"Director" means the Director of the Administration.

"Eligible Project Costs" means all those costs of the Project permitted by the Act to be funded by a loan from the Fund and which have been approved by the Director.

"EPA" means the United States Environmental Protection Agency, and its successors.

"Event of Default" means any occurrence or event specified in Section 4.01 hereof.

"Fiscal Year" means the period of 12 consecutive months commencing on July 1 in any calendar year and ending on June 30 of the succeeding calendar year.

"Fund" means the Maryland Water Quality Revolving Loan Fund.

"Governmental Authority" means the United States, the State of Maryland, or any of their political subdivisions, agencies, departments, commissions, boards, bureaus or instrumentalities, including any local authority having jurisdiction over the Project, and including EPA, the Department, the Board and the Administration.

"Independent Counsel" means any attorney or attorneys duly admitted to practice law before the highest court of any state who have regularly engaged in the practice of law as their primary occupation for at least five years. Independent Counsel may also serve as Bond Counsel if it qualifies as Bond Counsel.

"Independent Public Accountant" means an individual, partnership or corporation engaged in the accounting profession, either entitled to practice, or having members or officers entitled to practice, as a certified public accountant under the laws of the State of Maryland and in fact independent.

"Loan" means the aggregate amounts which are advanced from time to time by the Administration to the Borrower pursuant to the terms and provisions of this Agreement.

"Loan Closing Date" means the date on which the Note is executed and delivered to the Administration.

"Loan Commitment" means that amount which the Administration is obligated to lend to the Borrower pursuant to the terms and provisions of this Agreement and subject to the satisfaction of the conditions set forth in this Agreement, as such amount may be adjusted as provided in this Agreement.

"Loan Year" means the period beginning on the first February 1 on which principal of the Loan is payable and each February 1 thereafter and ending on the immediately succeeding January 31.

"Note" means the bond, note or other obligation executed and delivered by the Borrower to the Administration to evidence the Loan, such Note to be substantially in the form attached hereto as Exhibit F.

"Plans and Specifications" means the final plans and specifications for the construction of the Project prepared by the architect or engineer and approved by the Department.

"Project" means the project or projects of the Borrower described in Exhibit B to this Agreement.

"Project Budget" means the budget for the Project as set forth in Exhibit C to this Agreement, as revised in accordance with Section 2.02(d).

"Related Financing" means any bond, note, agreement or other instrument or transaction (other than this Agreement or the Note) pursuant to which the Borrower obtains any monies that may be expended to pay costs of the Project.

"Requirement" means any law, ordinance, code, order, rule or regulation of a Governmental Authority, including, without limitation, a condition set forth in a National Pollution Discharge Elimination System ("NPDES") permit or in a construction permit issued by the Department.

"State" means the State of Maryland.

"Trustee" means the trustee for the Bonds.

Section 1.02. Rules of Construction. Unless the context clearly indicates to the contrary, the following rules shall apply to the construction of this Agreement:

(a) words importing the singular number include the plural number and words importing the plural number include the singular number;

(b) words of the masculine gender include correlative words of the feminine and neuter genders;

(c) words importing persons include any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organization or government or agency or political subdivision thereof;

(d) the terms "agree" and "agreement" shall include and mean "covenant", and all agreements contained in this Agreement are intended to constitute covenants and shall be enforceable as such;

(e) the headings and the Table of Contents set forth in this Agreement are solely for convenience of reference and shall not constitute a part of this Agreement or affect its meaning, construction or effect; and

(f) any reference to a particular Article or Section shall be to such Article or Section of this Agreement unless the context shall otherwise require.

ARTICLE II

REPRESENTATIONS AND COVENANTS OF BORROWER

Section 2.01. Representations of Borrower. The Borrower represents for the benefit of the Administration as follows:

(a) Corporate Organization and Authority. The Borrower:

(i) is a "local government" as defined in the Act; and

(ii) has all requisite power and authority and all necessary licenses and permits required as of the date hereof to own and operate the Project, to enter into this Agreement, to execute and deliver the Note, and to carry out and consummate all transactions contemplated by this Agreement.

(b) Full Disclosure. There is no fact that the Borrower has not disclosed to the Administration in writing that materially adversely affects or (so far as the Borrower can now foresee) that will materially adversely affect the properties, activities, prospects or condition (financial or other) of the Borrower or the ability of the Borrower to make all payments due hereunder and otherwise perform its obligations under this Agreement and the Note.

(c) Pending Litigation. There are no proceedings pending, or to the knowledge of the Borrower threatened, against or affecting the Borrower in any court or before any Governmental Authority or arbitration board or tribunal that, if adversely determined, would materially adversely affect the properties, activities, prospects or condition (financial or other) of the Borrower, or the

ability of the Borrower to make all payments due hereunder and otherwise perform its obligations under this Agreement and the Note, and that have not been disclosed in writing to the Administration in the Application or otherwise.

(d) Borrowing Legal and Authorized. The consummation of the transactions provided for in this Agreement and the Note and compliance by the Borrower with the provisions of this Agreement and the Note:

(i) are within its powers and have been duly authorized by all necessary action on the part of the governing body of the Borrower; and

(ii) will not result in any breach of any of the terms, conditions or provisions of, or constitute a default under, or result in the creation or imposition of any lien, charge or encumbrances upon any property or assets of the Borrower pursuant to, any indenture, loan agreement or other instrument (other than this Agreement and the Note) to which the Borrower is a party or by which the Borrower may be bound, nor will such action result in any violation of the provisions of laws, ordinances, governmental rules, regulations or court orders to which the Borrower or its properties or operations is subject.

(e) No Defaults. No event has occurred and no condition exists that, upon execution of this Agreement and the Note or receipt of the Loan, would constitute a Default hereunder. The Borrower is not in violation, and has not received notice of any claimed violation, of any term of any agreement or other instrument to which it is a party or by which it or its property may be bound, which violation would materially adversely affect the properties, activities, prospects or condition (financial or other) of the Borrower or the ability of the Borrower to make all payments due hereunder and otherwise perform its obligations under this Agreement and the Note, and that have not been disclosed in writing to the Administration in the Application or otherwise.

(f) Governmental Consent; Project Consistency.

(i) The Borrower has obtained all permits and approvals required to date by any Governmental Authority for the making and performance by the Borrower of its obligations under this Agreement and the Note or for the Project and the financing thereof. No consent, approval or authorization of, or filing, registration or qualification with, any Governmental Authority that has not been obtained is required on the part of the Borrower as a condition to the execution and delivery of this Agreement and the Note or the consummation of any transaction herein contemplated.

(ii) The Project is consistent with (A) the local plan of the Borrower as contemplated under Section 5-7A-02 of the State Finance and Procurement Article of the Annotated Code of Maryland, as amended; (B) the State Economic Growth, Resource Protection, and Planning Policy established in Section 5-7A-01 of the State Finance and Procurement Article of the Annotated Code of Maryland, as amended;

and (C) all applicable provisions of *Subtitle 7B*; "*Priority Funding Areas*" of Title 5 of the State Finance and Procurement Article of the Annotated Code of Maryland, as amended.

(g) No Conflicts. No member, officer, or employee of the Borrower, or its designees, or agents, no consultant, no member of the governing body of the Borrower or of any Governmental Authority, who exercises or has exercised any authority over the Project during such person's tenure, shall have any interest, direct or indirect, in any contract or subcontract, or its proceeds, in any activity, or benefit therefrom, which is part of the Project.

(h) Use of Proceeds. The Borrower will apply the proceeds of the Loan from the Administration as described in Exhibit B attached hereto and made a part hereof (i) to finance all or a portion of the Eligible Project Costs; and (ii) to reimburse the Borrower for all or a portion of the Eligible Project Costs paid or incurred prior to the date hereof in anticipation of reimbursement by the Administration. Except as provided in Section 3.03(c) of this Agreement, before each and every advance of the proceeds of the Loan to the Borrower, the Borrower shall submit to the Administration a requisition meeting the requirements of Section 3.03 of this Agreement.

(i) Loan Closing Submissions. On or before the Loan Closing Date, the Borrower will cause to be delivered to the Administration each of the following items:

(i) an opinion of Independent Counsel, acceptable to the Administration, dated as of the Loan Closing Date, substantially in the form set forth in Exhibit D to this Agreement;

(ii) fully executed counterparts of this Agreement, the Note;

(iii) copies of the ordinance, resolution or other official action of the governing body of the Borrower authorizing the execution and delivery of this Agreement and the Note, certified by an appropriate officer of the Borrower;

(iv) a certificate, dated as of the Loan Closing Date, signed by an Authorized Officer of the Borrower and in form satisfactory to the Administration, confirming the Borrower's obligations under and representations in the Loan Agreement as of such date;

(v) such other certificates, documents, opinions and information as the Administration may require.

Section 2.02. Particular Covenants of the Borrower.

(a) Maintenance of Project; Insurance. The Borrower shall (i) keep, operate and maintain, or cause to be kept, operated and maintained, the Project in good working order, condition and repair; (ii) make or cause to be made all needed and proper replacements to the Project so that the Project will at all times be in good operating condition, fit and proper for the purposes for which

it was originally erected or installed; (iii) not permit any waste of the Project; (iv) observe and comply with, or cause to be observed and complied with, all Requirements; and (v) operate, or cause to be operated, the Project in the manner in which similar projects are operated by persons operating a first-class facility of a similar nature. The Borrower shall maintain or cause to be maintained at its sole cost and expense insurance with respect to the Project, both during its construction and thereafter, against such casualties and contingencies and in such amounts as are customarily maintained by governmental entities similarly situated and as are consistent with sound governmental practice.

(b) Sale or Disposition of Project. The Borrower reasonably expects that no portion of the Project will be sold prior to the final maturity date of the Loan. In the event that the Borrower shall sell or otherwise dispose of any portion of the Project prior to the final maturity date of the Loan, the Borrower shall apply the net proceeds thereof to the prepayment of the Loan or as the Administration shall otherwise direct unless (i) the Borrower shall have obtained the prior written consent of the Administration to some other proposed application of such net proceeds.

(c) Inspections; Information. The Borrower shall permit the Administration or its designee to examine, visit and inspect, at any and all reasonable times (including, without limitation, any time during which the Project is under construction or in operation), the property constituting the Project, to attend all construction progress meetings relating to the Project and to inspect and make copies of any accounts, books and records, including (without limitation) its records regarding receipts, disbursements, contracts, investments and any other matters relating to the Project and the financing thereof, and shall supply such reports and information as the Administration may reasonably require in connection therewith. Without limiting the generality of the foregoing, the Borrower shall keep and maintain any books, records, and other documents that may be required under applicable federal and State statutes, regulations, guidelines, rules and procedures now or hereafter applicable to loans made by the Administration from the Fund, and as may be reasonably necessary to reflect and disclose fully the amount and disposition of the Loan, the total cost of the activities paid for, in whole or in part, with the proceeds of the Loan, and the amount and nature of all investments related to such activities which are supplied or to be supplied by other sources. All such books, records and other documents shall be maintained at the offices of the Borrower, as specified on Exhibit B attached hereto, for inspection, copying, audit and examination at all reasonable times by any duly authorized representative of the Administration. All such books, records and other documents shall be maintained until the completion of an audit of the Project by the EPA or notification from the State or the EPA that no audit is required.

(d) Completion of the Project; Payment of Excess Costs of the Project. The Borrower shall proceed diligently to complete the Project in accordance with the Plans and Specifications, and in accordance with any requirements set forth in the construction and NPDES permits. The Borrower shall satisfy all applicable Requirements for operation of the Project by the completion of the Project, and shall commence operation of the Project promptly upon its completion. No substantial changes may be made to the Plans and Specifications, the general construction contract or the Project Budget, or in the construction of the Project without the prior written approval of the Administration in its discretion. The Borrower shall pay any amount required for the acquisition, construction and equipping of the Project in excess of the amount available to be

loaned to the Borrower hereunder. Upon the completion of the Project, the Borrower shall deliver to the Administration a certificate of the Borrower certifying that the Project was completed as of the date set forth in such certificate.

(e) Cancellation of Loan. As provided by Section 9-1606(e) of the Act, the Borrower acknowledges and agrees that its obligation to make the payments due hereunder and under the Note is cancelable only upon repayment in full of the Loan, and that neither the Administration, the Secretary of the Department, nor the Board is authorized to forgive the repayment of all or any portion of the Loan.

(f) Dedicated Source of Revenue. Pursuant to the Clean Water Act, the Borrower has established one or more dedicated sources of revenue for repayment of the Loan, as described in Exhibit E attached hereto as a part hereof.

(g) Indemnification. To the extent permitted by law, the Borrower releases the Administration, the Fund, the Department, the Board and the State from, agrees that the Administration, the Fund, the Department, the Board and the State shall not have any liability for, and agrees to protect, indemnify and save harmless the Administration, the Fund, the Department, the Board and the State from and against, any and all liabilities, suits, actions, claims, demands, losses, expenses and costs of every kind and nature incurred by, or asserted or imposed against, the Administration, the Fund, the Department, the Board or the State, as a result of or in connection with the Project or the financing thereof. To the extent permitted by law, all money expended by the Administration, the Fund, the Department, the Board or the State as a result of such liabilities, suits, actions, claims, demands, losses, expenses or costs, together with interest at the rate provided in the Note from the date of such payment, shall constitute an additional indebtedness of the Borrower and shall be immediately and without notice due and payable by the Borrower to the Administration.

(h) Non-discrimination. The Borrower certifies that it does not discriminate, and covenants that it shall not discriminate, on the basis of (1) political or religious opinion or affiliation, marital status, race, color, creed or national origin, or (2) sex or age, except where sex or age constitutes a bona fide occupational qualification, or (3) the physical or mental handicap of a qualified handicapped individual. At such times as the Administration requests, the Borrower shall submit to the Administration information relating to the Borrower's operations, with regard to political or religious opinion or affiliation, marital status, physical or mental handicap, race, color, creed, sex, age, or national origin, on a form to be prescribed by the Administration.

(i) Compliance with Requirements. The Borrower acknowledges that the Loan and this Agreement are subject to, and the Borrower agrees to comply with, all Requirements applicable to the Project and the financing thereof, including (without limiting the generality of the foregoing) the Clean Water Act, the Act, and all other applicable State and federal statutes and such rules, regulations, orders and procedural guidelines as may be promulgated from time to time by the EPA, the Board, the Department, the Administration, or other Governmental Authority.

(j) Annual Audit. Within 150 days of the end of each Fiscal Year, the Borrower shall cause financial statements of the Borrower to be prepared with respect to such Fiscal Year in

accordance with generally accepted accounting principles, applicable to governmental units, consistently applied, which financial statements shall be audited by, and accompanied by a report of, an Independent Public Accountant. Such financial statements and report shall be delivered upon completion to the Administration.

(k) Additional Disclosure Information. The Borrower agrees to provide the Administration with such information regarding the Borrower and its finances as the Administration may from time to time request. The Borrower further acknowledges that the Administration may issue one or more series of Bonds pursuant to the Indenture, and that any or all of such Bonds may be secured in part by repayments of the Borrower with respect to the Loan. The Borrower accordingly agrees to provide to the Administration such information regarding the Borrower and its finances as the Administration may from time to time request for inclusion in the official statements or other offering documents to be distributed in connection with the sale of any such Bonds or any annual disclosure document or other informational document prepared from time to time by the Administration to be made available to prospective purchasers or holders of any of such Bonds. The Borrower shall also furnish to the Administration at its request a certificate of an Authorized Officer of the Borrower to the effect that any information so provided or included contains no material inaccuracy or omission in light of the purposes for which such information is provided or included. The Borrower agrees to notify the Administration promptly in writing of (a) any changes in the condition or affairs of the Borrower (financial or other) that would cause any information regarding the Borrower so provided or included in an official statement or any subsequent offering document, annual disclosure document or other informational document of the Administration that the Borrower has had an opportunity to review and certify as to its accuracy, to contain a material inaccuracy or omission in light of the purposes for which such information is so included, and (b) any event set forth in Securities and Exchange Commission Rule 15c2-12(b)(5)(i)(C), as such rule may be amended and supplemented.

(l) Related Financing. The Borrower agrees that the proceeds of any Related Financing shall be expended to pay costs of the Project on a monthly basis proportionately with the proceeds of the Loan, taking into account the total amount of the proceeds of such Related Financing available to pay costs of the Project and the maximum amount of the Loan Commitment. The Borrower agrees to provide the Administration upon its request with such information as the Administration deems reasonably necessary to determine whether the Borrower is in compliance with the provisions of this Section 2.02(l).

ARTICLE III

LOAN TO BORROWER; AMOUNTS PAYABLE; GENERAL AGREEMENTS

Section 3.01. The Loan. Subject to the provisions of Sections 3.02, 3.03 and 3.08 hereof, the Administration hereby agrees to advance amounts under this Agreement to the Borrower, and the Borrower agrees to borrow and accept from the Administration amounts advanced under this

Agreement, in an aggregate principal amount not to exceed the maximum amount of the Loan Commitment set forth on Exhibit B attached hereto.

Section 3.02. Availability of Funds. The Administration expects to have, and shall use its best efforts to obtain and maintain, funds in an amount sufficient to make advances to the Borrower in accordance with the "Construction Cash Draw Schedule" included in Exhibit C attached hereto. The Borrower recognizes, however, that the Administration is a governmental entity with limited financial resources and that the Administration's ability to make such advances may be adversely affected by events or circumstances beyond the Administration's control. The Borrower accordingly assumes the risk that monies may not be available to make advances of the Loan to the Borrower, and, in such event, the Borrower specifically agrees that the Administration shall have no obligation to lend any amounts to the Borrower in excess of the amount theretofore advanced to the Borrower.

Section 3.03. (a) Requisitions and Disbursements. Amounts shall be loaned from time to time to pay, or reimburse the Borrower for the payment of, Eligible Project Costs, upon receipt of requisitions of the Borrower. Each such requisition shall (i) state the names of the payees, (ii) describe in reasonable detail the purpose of each payment, (iii) state the amount of each payment (supported by appropriate paid invoices or other evidence satisfactory to the Administration that the amount requisitioned has been paid or has been incurred by the Borrower and is then due), (iv) state that the amount so requisitioned constitutes a part of the Eligible Project Costs and (v) state that no Default or Event of Default under this Agreement has occurred and is continuing; provided, that this section shall not apply to advances made or deemed to have been made as provided in Section 3.03(c) hereof. In no event shall the Administration be obligated to advance to the Borrower any amount so long as any Default or Event of Default under this Agreement shall have occurred and be continuing. The Administration shall not be required to advance monies on more than one day in each month, and the Administration shall not be required to advance monies for the Project sooner than, or in an amount greater than, the schedule of disbursements for the Project shown on the "Construction Cash Draw Schedule" included in Exhibit C attached hereto. The Administration may require the Borrower to submit requisitions in advance of each such disbursement date in such manner as shall be reasonably acceptable to the Administration.

(b) Conditions Precedent. Before making the first advance of Loan proceeds, the Administration shall receive the following in form and content satisfactory to the Administration:

(i) copies of the Plans and Specifications and of any Change Orders issued through the date of such advance, the general construction contract, and the Project Budget;

(ii) a survey showing the location of existing and proposed easements, rights-of-way and improvements, and the perimeter boundaries of the land upon which the Project will be located, if any Loan proceeds are to be used for acquisition of the land;

(iii) copies of all building permits, if any, pertaining to the Project;

(iv) cost breakdown in trade form showing all subcontracts which represent at least 10 percent of the costs of the Project, and indicating use of the proceeds of the Loan therefor;

(v) a fully executed copy of any contract for the purchase of real property constituting a portion of the Eligible Project Costs described in Exhibit C; and

(vi) evidence satisfactory to the Administration that the conditions (if any) set forth in Exhibit A to this Agreement have been satisfied.

In addition, it shall be a condition precedent to the Administration's obligation to make any advance of Loan proceeds under this Agreement that no Default or Event of Default shall have occurred and be continuing at the time of any such advance.

(c) Interest During Construction. In the event that the Administration has consented to permit the Borrower to pay interest on the Loan from proceeds of the Loan during all or a portion of the period of time related to construction of the Project (as itemized in Exhibit C) ("Construction Period Interest"), the Administration shall on each February 1 and August 1 during such period advance to the Borrower an amount equal to the interest on the Loan due on such February 1 or August 1 and not theretofore paid by the Borrower. Any such amount of Construction Period Interest advanced by the Administration shall constitute part of the principal amount of the Loan hereunder immediately upon its advance to the Borrower in accordance with this paragraph. Notwithstanding the advance of any Construction Period Interest to the Borrower in accordance with this Section, the Borrower shall pay directly to the Administration the Administrative Fee on the dates and in the amounts set forth in Section 3.04(c), and no amounts shall be advanced under the Loan for the payment of the Administrative Fee.

Section 3.04. (a) Amounts Payable. The Borrower shall punctually repay the Loan in installments on the dates, in the amounts, and in the manner specified in the Note. The outstanding amount of the Loan shall bear interest at a rate per annum equal to the rate or rates of interest set forth in Exhibit B, and shall be payable in accordance with the amortization schedule as specified in Exhibit B attached hereto and more particularly set out in the Note (which amortization schedule is subject to adjustment in accordance with this Agreement and the Note). On or prior to the Loan Closing Date, the Borrower shall execute the Note to evidence such obligation. In addition, the Borrower shall pay to the Administration an Administrative Fee in accordance with paragraph (c) of this Section.

(b) Late Charges. In addition to the payments of principal and interest on the Loan required by paragraph (a) of this Section, the Borrower shall pay (i) a late charge for any payment of principal or interest on the Loan that is received later than the tenth 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 a rate equal to the Default Rate set forth in Exhibit B.

(c) Administrative Fee. (i) On the date specified in Exhibit B for the first payment of the Administrative Fee and on each August 1 thereafter that the Note remains outstanding and unpaid to and including the date of final maturity of the Note (each such date, an "Administrative Fee Payment Date"), the Borrower shall pay to the Administration an Administrative Fee. Subject to paragraph (iv) below, the Administrative Fee for any Administrative Fee Payment Date shall be the (A) Administrative Fee set forth in Exhibit B or (B) after any date on which the outstanding principal amount of the Loan Commitment is reduced by the Administration by a notice in writing to the Borrower in accordance with this Agreement (other than by reason of the repayment of the principal of the Loan) the Administrative Fee set forth in a notice from the Administration to the Borrower in connection with such reduction. Any adjustment of the Administrative Fee in accordance with the foregoing shall be prospective only, and the Administration shall in no event be obligated to refund any portion of any Administrative Fee payment theretofore received from the Borrower.

(ii) In prescribing the Administrative Fee for a loan with a term of twenty years or more for purposes of paragraph (i) above, the Administration shall employ the following formula, it being understood that any determinations as to the application of such formula shall be within the discretion of the Administration and any Administrative Fee Payment prescribed by the Administration in accordance with the foregoing shall be conclusive and binding upon the Administration and the Borrower: the Administrative Fee equals (A) the aggregate amount of all scheduled payments of principal of and interest on the Note, multiplied by the Percentage Rate (defined in paragraph (iv) below) then in effect, (B) divided by the total number of scheduled Administrative Fee Payment Dates. For example, if the aggregate amount of all scheduled payments of principal of and interest on the Note were $5,000,000 and the Percentage Rate were 5%, and the total number of scheduled Administrative Fee Payment Dates were 21, the Administrative Fee to be paid each year would equal:

$$\frac{\$5{,}000{,}000 \times .05}{21} = \$11{,}904.76$$

(iii) In prescribing the Administrative Fee for a loan with a term of less than twenty years for purposes of paragraph (i) above, the Administration shall employ the following formula, it being understood that any determinations as to the application of such formula shall be within the discretion of the Administration and any Administrative Fee Payment prescribed by the Administration in accordance with the foregoing shall be conclusive and binding upon the Administration and the Borrower: The Administrative Fee equals (A) the aggregate amount of all scheduled payments of principal of and interest on the Note, multiplied by the Percentage Rate (defined in paragraph (iv) below) then in effect, (B) divided by 20. For example, if the aggregate amount of all scheduled payments of principal of and interest on the Note were $4,000,000 and the Percentage Rate were 5%, the Administrative Fee to be paid each year would equal:

$$\frac{\$4{,}000{,}000 \times .05}{20} = \$10{,}000.00$$

(iv) The Percentage Rate for each Fiscal Year shall be fixed as a uniform rate for all borrowers receiving loans from the Fund in order to provide sufficient revenues to pay the expenses of the Administration, as approved in the operating budget of the State by the General Assembly of the State; provided, however, that in no event shall the Percentage Rate exceed five percent (5%). In each Fiscal Year the Administration shall review the Percentage Rate then in effect and adjust it for the immediately succeeding Fiscal Year to reflect its approved budget for the immediately succeeding Fiscal Year, a retainage of not more than ten percent (10%) for an operating reserve within the Administration's general account, and other factors as reasonably determined by the Secretary. No later than June 1 following the end of the Session of the General Assembly in each Fiscal Year, the Administration shall notify the Borrower of the newly established Percentage Rate, which shall be the Percentage Rate applicable to the immediately succeeding Fiscal Year, and of any change in the amount of the Administrative Fee payable by the Borrower in such Fiscal Year as a result of the application of such Percentage Rate.

Section 3.05. Sources of Payment. (a) Dedicated Revenues. In accordance with Section 2.02(f) hereof, the principal of and interest on the Note, and any other amounts due from time to time under this Agreement, shall be payable in the first instance from the dedicated source of revenues described in Exhibit E attached hereto.

(b) General Obligation. In addition, the Note constitutes a general obligation of the Borrower, to the payment of which the full faith and credit and taxing power of the Borrower are pledged.

(c) State Withholding. As further security for the payment of the Note and any other amounts due hereunder, the Borrower hereby pledges the following to the Administration and grants a security interest therein to the Administration: (i) as authorized by Section 9-1606(d) of the Act, the Borrower's share of any and all income tax revenues collected by the State from time to time that would otherwise be payable to the Borrower, and (ii) to the maximum extent permitted by law, any and all other tax revenues, grants, and other monies that the Borrower is or may from time to time be entitled to receive from the State or that may at any time be due from the State, or any department, agency, or instrumentality of the State, to the Borrower. The Borrower further agrees that, upon the occurrence of an Event of Default, among other things, the State Comptroller and the State Treasurer may (i) withhold any such amounts that the Borrower is then or may thereafter be entitled to receive and (ii) at the direction of the Administration, apply the amounts so withheld to the payment of any amounts then due or thereafter becoming due hereunder (including, without limitation, payments under the Note) until the Borrower's obligations hereunder have been fully paid and discharged.

Section 3.06. Unconditional Obligations. The obligations of the Borrower to make payments under the Note as and when due and all other payments required hereunder and to perform and observe the other agreements on its part contained herein shall be absolute and unconditional, and shall not be abated, rebated, set-off, reduced, abrogated, terminated, waived, diminished, postponed or otherwise modified in any manner or to any extent whatsoever, regardless of any contingency, act of God, event or cause whatsoever, including (without limitation) any acts or

circumstances that may constitute failure of consideration, eviction or constructive eviction, the taking by eminent domain or destruction of or damage to the Project, commercial frustration of purpose, any change in the laws of the United States of America or of the State or any political subdivision of either or in the rules or regulations of any Governmental Authority, any failure of the Administration, the Department or the State to perform or observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the Project, this Agreement, or otherwise or any rights of set-off, recoupment, abatement or counterclaim that the Borrower might otherwise have against the Administration, the Department or the State or any other party or parties; provided, however, that payments hereunder shall not constitute a waiver of any such rights.

Section 3.07. Loan Commitment. The Borrower acknowledges and agrees that the monies attributable to the Borrower's Loan Commitment are the property of the Administration and are held by the Administration to provide for advances to be made to the Borrower in accordance with this Agreement, or to be otherwise disposed of by the Administration in accordance with this Agreement.

Section 3.08. Reduction of Loan Commitment. The Loan Commitment is subject to reduction in accordance with the provisions of this Section 3.08.

(a) Any portion of the Loan Commitment not advanced to the Borrower under Section 3.03 of this Agreement at the later of (1) two years from the date of this Agreement and (2) the earlier of one year following (i) actual completion of construction of the Project or (ii) the estimated completion date specified on Exhibit B attached hereto, shall no longer be available to be advanced to the Borrower and the amount of the Loan Commitment shall be reduced by an amount equal to the portion of the Loan Commitment not advanced, unless otherwise agreed to by the Administration in writing.

(b) The Administration may, by a notice in writing delivered to the Borrower, reduce the amount of the Loan Commitment if the Administration should for any reason determine that it will be unable to fund the full amount of the Loan Commitment (including, without limitation, a determination that the Eligible Project Costs to be paid with proceeds of the Loan are expected to be less than the maximum amount of the Loan Commitment), or if it determines that the Borrower is not proceeding satisfactorily and expeditiously with the Project in accordance with schedules and plans provided to the Administration, or if it determines that the Borrower is no longer able to make the certifications required under Section 3.03 in connection with the submission of requisitions. Such notice shall specify the reason for and the amount of the reduction.

(c) Any reduction in the amount of the Loan Commitment shall not affect the obligation of the Borrower to repay the Loan in accordance with the provisions of this Agreement and the Note.

(d) The Administration shall advise the Borrower in writing of any reduction in the amount of the Loan Commitment. In the event of any such reduction, the Borrower shall repay the Loan in accordance with such revised principal amortization schedule (prepared by applying such

amount to reduce the installments of principal due under the Note in inverse order of payment, such that any such reduction is applied first to the last installment of principal due under the Note) as may be prescribed by the Administration in accordance with the provisions of the Note executed in connection therewith. The Administration may require, and the Borrower shall deliver, such certificates, documents, opinions and other evidence as the Administration may deem necessary or advisable in connection with any such reduction in the Loan Commitment. If a new Note is delivered in connection with any such reduction, the Administration shall cancel the Note initially delivered to the Administration by the Borrower pursuant to this Agreement.

Section 3.09. Disclaimer of Warranties. The Administration makes no warranty or representation, either express or implied, as to the value, design, condition, merchantability or fitness for particular purpose or fitness for use of the Project or any portion thereof or any other warranty with respect thereto. In no event shall the Administration be liable for any incidental, indirect, special or consequential damages in connection with or arising out of this Agreement or the Project or the existence, furnishing, functioning or use of the Project or any item or products or services provided for in this Agreement.

Section 3.10. Prepayments. The Loan shall be subject to mandatory prepayment, in whole or in part, as, when and to the extent required by the EPA's State Revolving Fund Program Regulations. Otherwise, the Loan may be prepaid by the Borrower, in whole or in part, only at such times and in such amounts, and upon the payment by the Borrower of such prepayment premium or penalty, as the Director, in his or her discretion, may specify and approve.

Section 3.11. Assignment. Neither this Agreement nor the Note may be assigned by the Borrower for any reason without the prior written consent of the Administration. The Administration may transfer, pledge or assign the Note and any or all rights or interests of the Administration under this Agreement without the prior consent of the Borrower.

ARTICLE IV

EVENTS OF DEFAULT AND REMEDIES

Section 4.01. Events of Default. If any of the following events occur, it is hereby defined as and declared to be and to constitute an "Event of Default":

(a) failure by the Borrower to pay any amount required to be paid hereunder or under the Note when due, which failure shall continue for a period of 20 days;

(b) failure by the Borrower to observe and perform any covenant, condition or agreement on its part to be observed or performed under this Agreement, other than as referred to in paragraph (a) of this Section, which failure shall continue for a period of 30 days after written notice, specifying such failure and requesting that it be remedied, is given to the Borrower by the Administration, unless the Administration shall agree in writing to an extension of such time prior to

its expiration; provided, however, that if the failure stated in such notice is correctable but cannot be corrected within the applicable period, the Administration will not unreasonably withhold its consent to an extension of such time if corrective action is instituted by the Borrower within the applicable period and diligently pursued until the Default is corrected;

(c) if (i) at any time any representation made by the Borrower in Section 2.01(f)(ii) is incorrect, or (ii) any other representation made by or on behalf of the Borrower contained in this Agreement, or in any instrument furnished in compliance with or with reference to this Agreement, the Loan Commitment or the Loan, is false or misleading in any material respect on the date on which such representation is made;

(d) if an order, judgment or decree is entered by a court of competent jurisdiction (i) appointing a receiver, trustee, or liquidator for the Borrower; (ii) granting relief in involuntary proceedings with respect to the Borrower under the federal bankruptcy act, or (iii) assuming custody or control of the Borrower under the provision of any law for the relief of debtors, and the order, judgment or decree is not set aside or stayed within 60 days from the date of entry of the order, judgment or decree; or

(e) if the Borrower (i) admits in writing its inability to pay its debts generally as they become due, (ii) commences voluntary proceedings in bankruptcy or seeking a composition of indebtedness, (iii) makes an assignment for the benefit of its creditors, (iv) consents to the appointment of a receiver, or (v) consents to the assumption of custody or control of the Borrower by any court of competent jurisdiction under any law for the relief of debtors .

Section 4.02. Notice of Default. The Borrower shall give the Administration prompt telephonic notice by contacting the Director of the Administration, followed by prompt written confirmation, of the occurrence of any event referred to in Section 4.01(d) or (e) hereof and of the occurrence of any other event or condition that constitutes a Default or an Event of Default at such time as any senior administrative or financial officer of the Borrower becomes aware of the existence thereof.

Section 4.03. Remedies on Default. Whenever any Event of Default referred to in Section 4.01 hereof shall have happened and be continuing, the Administration shall have the right to take one or more of the following remedial steps:

(a) declare all amounts due hereunder (including, without limitation, payments under the Note) to be immediately due and payable, and upon notice to the Borrower the same shall become immediately due and payable by the Borrower without further notice or demand; and

(b) take whatever other action at law or in equity that may appear necessary or desirable to collect the amounts then due and thereafter to become due hereunder or to enforce the performance and observance of any obligation, agreement or covenant of the Borrower hereunder.

Section 4.04. Attorneys' Fees and Other Expenses. The Borrower shall on demand pay to the Administration the reasonable fees and expenses of attorneys and the Trustee and other

reasonable expenses incurred in the collection of any sum due hereunder or in the enforcement of performance of any other obligations of the Borrower upon an Event of Default.

Section 4.05. Application of Monies. Any monies collected by the Administration pursuant to Section 4.03 hereof shall be applied (a) first, to pay any attorneys' fees or other fees and expenses owed by the Borrower pursuant to Section 4.04 hereof, (b) second, to pay interest due on the Loan, (c) third, to pay principal due on the Loan, (d) fourth, to pay any other amounts due hereunder, and (e) fifth, to pay interest and principal on the Loan and other amounts payable hereunder as such amounts become due and payable.

Section 4.06. No Remedy Exclusive; Waiver; Notice. No remedy herein conferred upon or reserved to the Administration is intended to be exclusive and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Agreement or now or hereafter existing at law or in equity. No delay or omission to exercise any right, remedy or power accruing upon any Default or Event of Default shall impair any such right, remedy or power or shall be construed to be a waiver thereof, but any such right, remedy or power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Administration to exercise any remedy reserved to it in this Article, it shall not be necessary to give any notice, other than such notice as may be required in this Article.

ARTICLE V

MISCELLANEOUS

Section 5.01. Notices. All amendments, notices, requests, objections, waivers, rejections, agreements, approvals, disclosures and consents of any kind made pursuant to this Agreement shall be in writing. Any such communication shall be sufficiently given and shall be deemed given when hand delivered or mailed by registered or certified mail, postage prepaid, to the Borrower at the address specified on Exhibit B attached hereto and to the Administration at Maryland Water Quality Financing Administration, 1800 Washington Blvd., Baltimore, Maryland 21230-1718, Attention: Director.

Section 5.02. Binding Effect. This Agreement shall inure to the benefit of and shall be binding upon the Administration and the Borrower and their respective successors and assigns.

Section 5.03. Severability. In the event any provision of this Agreement shall be held illegal, invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate, render unenforceable or otherwise affect any other provision hereof.

Section 5.04. Execution in Counterparts. This Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 5.05. Applicable Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Maryland.

Section 5.06. Captions. The captions or headings in this Agreement are for convenience only and shall not in any way define, limit or describe the scope or intent of any provisions or sections of this Agreement.

Section 5.07. Further Assurances. The Borrower shall, at the request of the Administration, execute, acknowledge and deliver such further resolutions, conveyances, transfers, assurances, financing statements, certificates and other instruments as may be necessary or desirable for better assuring, conveying, granting, assigning and confirming the rights, security interests and agreements granted or intended to be granted by this Agreement and the Note.

Section 5.08. Entire Agreement. This Agreement constitutes the entire agreement between the parties and supersedes all prior oral and written agreements between the parties hereto with respect to the Loan. In the event of any inconsistency between the provisions of this Agreement and anything contained in the Application, the provisions of this Agreement shall prevail.

Section 5.09. Amendment of this Agreement. This Agreement, or any part hereof, may be amended from time to time hereafter only if and to the extent permitted by the Indenture and by an instrument in writing jointly executed by the Administration and the Borrower.

Section 5.10. Disclaimer of Relationships. The Borrower acknowledges that the obligation of the Administration is limited to making the Loan in the manner and on the terms set forth in this Agreement. Nothing in this Agreement nor any act of either the Administration or of the Borrower shall be deemed or construed by either of them, or by third persons, to create any relationship of third-party beneficiary, principal and agent, limited or general partnership, or joint venture, or of any association or relationship whatsoever involving the Borrower and the Administration.

Section 5.11. Effective Date. The effective date of this Agreement shall be the date of the Administration's execution.

Section 5.12. Term of this Agreement. Unless sooner terminated pursuant to Article IV of this Agreement, or by the mutual consent of the Borrower and the Administration, this Agreement shall continue and remain in full force and effect until the Loan, together with interest and all other sums due and owing in connection with this Agreement or the Loan, have been paid in full to the satisfaction of the Administration. Upon payment in full of the Loan together with interest and all other sums due and owing in connection with this Agreement or the Loan from any source whatsoever, this Agreement shall be terminated.

Section 5.13. Delegation Not to Relieve Obligations. The delegation by the Borrower of the planning, construction or carrying out of the Project shall not relieve the Borrower of any obligations under this Agreement and any other documents executed in connection with the Loan.

Section 5.14. Additional Terms. This Agreement shall also be subject to the additional terms, if any, set forth in Exhibit A hereto.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed and delivered as of the day and year first above written.

(SEAL)

WITNESS:

MARYLAND WATER QUALITY FINANCING ADMINISTRATION

_____

_____
Jag Khuman
Director

(SEAL)

ATTEST:

BORROWER: _____

_____
Name:
Title:

By:_____
Name:
Title:

Approved for form and legal sufficiency

this ____ day of _____, 200__

_____
Local Attorney for
Borrower

Approved for form and legal sufficiency

this ____ day of _____, 200__

_____
Helen E. Akparanta
Assistant Attorney General

EXHIBIT A
to Loan Agreement

Borrower Name: _____
Address: _____
_____
Attention: _____
Project Name: _____

THIS PROJECT HAS BEEN FINANCED WITH THE USE OF FEDERAL FUNDS UNDER CFDA #: 66.458 AND THE BORROWER MAY BE SUBJECT TO A SINGLE AUDIT PURSUANT TO OMB CIRCULAR A-133 TO BE UNDERTAKEN BY AN INDEPENDENT AUDITOR.

CONDITIONS TO INITIAL ADVANCE UNDER SECTION 3.03(b)(vi) OF LOAN AGREEMENT:

ADDITIONAL TERMS APPLICABLE TO LOAN AGREEMENT:

EXHIBIT B
to Loan Agreement

Borrower Name: _____
Address: _____
_____
Attention: _____
Project Name: _____

DESCRIPTION OF THE LOAN

(1) Project Name:

(2) Principal Amount of Loan Commitment: $_____

(3) Rate of Interest: ___%

(4) Amortization Schedule:

(a) ___ years.

First Principal Payment Date:_____

(b) Level Principal ____; or

Level Debt Service _____.

(5) Annual Administrative Fee: $_____, beginning _____.

(6) Estimated Completion Date of Project:_____

(7) Default Rate:_____%

(8) Description of Project:

EXHIBIT C
to Loan Agreement

Borrower Name: _____
Address: _____
_____
Attention: _____
Project Name: _____

PROJECT BUDGET

Breakdown of Eligible Project Costs:

A. Portion of Eligible Project Costs to be directly financed:

Description	Allocated Amount of Loan

B. Portion of Eligible Project Costs for which Borrower will be reimbursed, which the Borrower hereby certifies were paid or incurred prior to the date of the Agreement, in anticipation of being reimbursed through a loan from the Administration (and subject to compliance with Section 3.03(a) of the Agreement):

Description	Allocated Amount of Loan

C. Construction Cash Draw Schedule

EXHIBIT D
to Loan Agreement

OPINION OF BORROWER'S COUNSEL

[LETTERHEAD OF COUNSEL TO BORROWER]

[CLOSING DATE]

Maryland Water Quality
Financing Administration
1800 Washington Blvd.
Baltimore, Maryland 21230-1718

Ladies and Gentlemen:

We are counsel to [NAME OF BORROWER], a [body politic and corporate and a political subdivision] [municipal corporation] [other appropriate description] of the State of Maryland (the "Borrower") in connection with the loan (the "Loan") by Maryland Water Quality Financing Administration (the "Administration") to the Borrower of funds to finance all or a portion of the costs of a project (the "Project") described in Exhibit B to the Loan Agreement dated as of _____, 2005 (the "Agreement") by and between the Administration and the Borrower.

In this connection, we have reviewed such records, certificates, and other documents as we have considered necessary or appropriate for the purposes of this opinion, including, without limitation, the Agreement and the Borrower's $ Water Quality Bond, Series 2005, dated _____, 2005 (the "Note"). The Agreement and the Note are referred to herein collectively as the "Loan Documents". Based on such review, and such other considerations of law and fact as we believe to be relevant, we are of the opinion that:

(a) The Borrower is a validly created and existing [body politic and corporate and a political subdivision] [municipal corporation] [other appropriate description] of the State of Maryland, possessing authority to acquire, construct and operate the Project and to enter into the Loan Documents and perform its obligations thereunder.

(b) The Borrower has duly authorized, executed and delivered the Loan Documents and, assuming due authorization, execution and delivery of the Agreement by the Administration, the Loan Documents constitute legal, valid and binding obligations of the Borrower enforceable in accordance with their respective terms.

(c) The Note is a general obligation of the Borrower to which its full faith and credit is pledged, payable if and to the extent not paid from other sources as described in the

Agreement from ad valorem taxes, unlimited as to rate and amount, which the Borrower is empowered to levy on all real and tangible personal property within its corporate limits subject to assessment for unlimited taxation by the Borrower.

(d) The Loan Documents and the enforceability thereof are subject to bankruptcy, insolvency, moratorium, reorganization and other state and federal laws affecting the enforcement of creditors' rights and to general principles of equity.

(e) To the best of our knowledge after reasonable investigation, the Borrower has all necessary licenses, approvals and permits required to date under federal, state and local law to own, construct and acquire the Project.

(f) Neither the execution and delivery of the Loan Documents, the consummation of the transactions contemplated thereby, the acquisition and construction of the Project nor the fulfillment of or compliance with the terms and conditions of the Loan Documents conflicts with or results in a breach of or default under any of the terms, conditions or provisions of the charter or laws governing the Borrower (including any limit on indebtedness) or, to the best of our knowledge, any agreement, contract or other instrument, or law, ordinance, regulation, or judicial or other governmental order, to which the Borrower is now a party or by which the Borrower or its properties are otherwise subject or bound, and the Borrower is not otherwise in violation of any of the foregoing in a manner material to the transactions contemplated by the Loan Documents.

(g) To the best of our knowledge after reasonable investigation, there is no action, suit, proceeding or investigation, at law or in equity, before or by any court, governmental agency or public board or body pending or threatened against or affecting the Borrower that, if adversely determined, would materially affect the ability of the Borrower to perform its obligations under the Loan Documents, which has not been disclosed in writing to the Administration.

We hereby authorize Bond Counsel to the Administration to rely on this opinion as if we had addressed this opinion to them in addition to you.

Very truly yours,

EXHIBIT E
to Loan Agreement

Borrower Name: _____
Address: _____
_____
Attention: _____
Project Name: _____

DESCRIPTION OF DEDICATED REVENUES

The identification of the dedicated source or sources of revenues above is intended to specify a source or sources of revenues available in sufficient amount to provide for the payment of the costs of operating and maintaining the Project as well as the payment of the costs of debt service of any borrowing incurred to finance the Project. The specification of a dedicated source or sources of revenues above is not intended to constitute an undertaking by the Borrower to pledge, segregate or otherwise set aside any specific funds of the Borrower with the expectation that such funds would be used to pay the debt service on the Loan.

EXHIBIT F
to Loan Agreement

$[MAX. AMT.] R-1

REGISTERED

UNITED STATES OF AMERICA
STATE OF MARYLAND

[NAME OF BORROWER]
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

_____, a [body politic and corporate] [municipal corporation] [other appropriate description] of the State of Maryland (the "Borrower"), hereby acknowledges itself obligated to pay to the Registered Owner shown above, the principal amount of $____ (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 _____ per centum (__%) 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:

Due [February 1]	Principal Amount	Due [February 1]	Principal Amount
2006		2016	
2007		2017	
2008		2018	
2009		2019	
2010		2020	
2011		2021	
2012		2022	
2013		2023	
2014		2024	
2015		2025	

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 reamortized 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 _____, 200__, and semiannually thereafter on the 1st day of _____ and _____ 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 mails 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 [INSERT BORROWER'S AUTHORIZED OFFICER].

This bond is issued pursuant to and in full conformity with the provisions of [INSERT BORROWER'S LOCAL ACT(S)] 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 a resolution (numbered ____) adopted by [INSERT BORROWER'S AUTHORIZING ORDINANCE OR RESOLUTION] (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 [INSERT BORROWER'S AUTHORIZED OFFICERS] 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 [INSERT BORROWER'S AUTHORIZED OFFICER], 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 [INSERT AUTHORIZED OFFICERS] and the seal of the Borrower has been affixed hereto, attested by the manual signature of the [INSERT AUTHORIZED OFFICER], all as of the __ day of ____, 2005.

(SEAL)

ATTEST:

_____ By: _____

[OFFICER] [OFFICER]

MDE

MARYLAND DEPARTMENT OF THE ENVIRONMENT

1800 Washington Boulevard • Baltimore MD 21230
410-537-3000 • 1-800-633-6101

Robert L. Ehrlich, Jr.
Governor

Michael S. Steele
Lt. Governor

Kendl P. Philbrick
Secretary

Jonas A. Jacobson
Deputy Secretary

June 9, 2005

Mr. Gavin Cohen
Director of Finance
City of Rockville
111 Maryland Avenue
Rockville, MD 20850-2364

RE: Water Quality State Revolving Loan Fund (WQSRF)
Woottons Mill Park Stream Restoration
Loan Amount: $1,381,600.00

Dear Mr. Cohen:

The above referenced project has been amended into the State's 2003/2004 Project Priority List (PPL) and Water Quality State Revolving Funds (WQSRFs) are now available. The State is seeking Board of Public Works' approval on June 1, 2005. In preparation of Rockville securing WQSRFs for this project via a Loan Agreement with the Water Quality Financing Administration (WQFA), attached for your review is a draft amortization schedule.

This schedule is based upon the following assumptions:
-loan amount of $1,381,600.00;
-0% interest rate;
-a 19-year loan term;
-estimated loan start date of June 2005 (to be determined);
-principal repayments begin February, 2007, with a $1,000 mini principal payment August 1, 2006.

Please let me know if you would be interested in seeing an amortization schedule(s) with assumptions different than those above.

Following are the next steps to be taken in the loan origination process:

Authorizing Legislation: Local legislation authorizing the City to incur debt for this project will need to be put into place prior to loan execution. Prior to introduction of the legislation, your local and bond attorneys should coordinate this legislation with Ms. Helen Akparanta, Esquire. Ms. Akparanta is the Senior Assistant Attorney General for the Water Quality Financing Administration and can be reached at 410-537-3036. Ms. Akparanta has requested to see a draft(s) at least ten days prior to introduction. Questions regarding this can be directed to Ms. Akparanta.

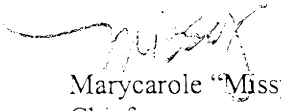
Debt Service Reserve Account (DSRA) Legislation: Based upon the financial review performed by the Water Quality Financing Administration (see attached January 25, 2005 correspondence), a DSRA will need to be established. The following draft language to be included in the Exhibit A to the Loan Agreement may be helpful in the drafting of the DSRA legislation:

> The Borrower will, and it is evidenced by the Borrower's Resolution No. _____, establish a Debt Service Reserve Account ("DSRA") prior to Loan closing. The DSRA will be in the amount of $75,000.00. The DSRA shall be restricted and dedicated solely for the purpose of payment of the Borrower's Payment Obligations under the Loan, should the Borrower's Dedicated Revenues not be sufficient to meet such Payment Obligations. Moreover, the DSRA shall be reflected as a distinct and verifiable line item in the Borrower's independently audited financial statements and may be drawn upon only with the Administration's prior written consent. The Borrower agrees to provide to the Administration, prior to the Loan Closing Date, bank statements or other records acceptable to the Administration evidencing establishment of the DSRA and such statements will be evidenced as Attachment 1 of this Exhibit A. The balance of the DSRA shall be maintained at the level of $75,000.00 until all of the Borrower's enterprise funds achieve a positive cash flow after meeting all Payment Obligations under said Loan for three consecutive years following completion of the Project as evidenced by an independently audited financial statement. Thereafter, the amount of the DSRA may be adjusted annually by the written mutual agreement of the Administration and the Borrower. The DSRA may be maintained by the Borrower and may be invested in a manner similar to other invested accounts. All income earned on the DSRA shall be to the benefit of the Borrower.

Loan Closing Date: A loan closing date can be targeted once the above legislations are put into place.

I hope the above information is helpful to you and look forward to working with you and the City in regards to loan execution. If you have any questions regarding the above information, please do not hesitate to contact me at 410-537-3980 or via email at mmartin@mde.state.md.us.

Sincerely,



Marycarole "Missy" Martin
Chief
State Revolving Fund Loan Division
Water Management Administration

Enclosure: Draft Amortization Schedule
January 25, 2005 Correspondence

cc: Helen Akparanta, Esquire (w/ Draft Amortization Schedule)
James Cumbie, Esquire (w/ Draft Amortization Schedule)
Ms. Jennifer Franks (w/ Draft Amortization Schedule)
Mr. John Gesswein (w/ Draft Amortization Schedule)
Mr. Jag Khuman (w/ Draft Amortization Schedule)
Mr. Andrew Sawyers (w/ Draft Amortization Schedule)
Ms. Susan Strauss (w/ Draft Amortization Schedule)
Mr. John Scabis (w/ Draft Amortization Schedule)
Ms. Debbie Thompson (w/ Draft Amortization Schedule)

MDE

MARYLAND DEPARTMENT OF THE ENVIRONMENT

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Robert L. Ehrlich, Jr.
Governor

Kendl P. Philbrick
Secretary

Michael S. Steele
Lt. Governor

Jonas A. Jacobson
Deputy Secretary

January 25, 2005

Mrs. Jen Franks
Mr. Dave Rowland
Accounting Operations
City of Rockville
111 Maryland Avenue
Rockville, MD 20850

Dear Jen and Dave:

I want to thank the City of Rockville for the continued interest in working with the Maryland Water Quality Financing Administration (MWQFA) to finance some of its capital projects. This letter is a summary of the discussion we had on Thursday, January 20, 2005 concerning Rockville's intention to finance a Drinking Water Upgrade Project and the Wooten Mills Stream Restoration Project with MWQFA funds.

Project I: Wooten Mills Stormwater/Stream Restoration

A. **MWQFA Lending guidelines: MWQFA** requires 1.20 Debt Service Capacity (D/S) Coverage. The City of Rockville's Stormwater Fund shows 0.7 Coverage in FY 2004 including the new MWQFA D/S. The fund also shows an operating loss that excludes depreciation.

B. **Recommended Action**: Based on our preliminary analysis and assumptions, MWQFA recommends the City provide an annual Debt Service Reserve Account (DSRA), restricting cash for the estimated $75,000 D/S (one year's D/S). The DSRA may be waived by MWQFA if financial capacity is reached for three consecutive years.

C. **Benefits to the City of Rockville:** MWQFA is offering this loan to the City of Rockville at ZERO percent (0%) interest with no Administrative Fee. The 0% with no administrative fee when compared to our standard interest rate of 1.60% results in annual savings of $13,232 to the City of Rockville.

Project II: Drinking Water Plant Upgrade

A. **MWQFA Lending guidelines:** MWQFA requires a 1.20 Debt Service Capacity (D/S). The City's Water Fund shows 0.35 Coverage in FY 2004 without MWQFA's new debt. It also shows an operating loss that excludes depreciation.

B: **Recommended Action**: Based on our analysis and assumptions, if the City's water fund were to achieve a standard coverage of 1.2 without MWQFA's new debt by 2007, it would have to raise rates by 32% over the next two years. In anticipation of the MWQFA loan being closed in fiscal year 2005 or 2006, MWQFA is recommending that the City increase its water rates by 35% (phased over two years: FY2006 – 20% and FY2007 - 15%). The MWQFA's discounted loan would only have a 3% impact on the recommended increase. Subsequent increases as determined by the City to cover D/S and maintenance operations should be evaluated.

C: **Benefits to the City of Rockville:** The phased increase which is greater than twenty percent (20%), allows MWQFA to offer a reduced interest rate of ~0.90% and a one time loan forgiveness of $340,000 or 20% of the $1.7 million loan. MWQFA savings to the city of Rockville amounts to approximately $846,400 over the 20-year life of the loan.

Summary of MWQFA Drinking Water Upgrade Savings to City of Rockville:

DW Treatment Upgrade	Std Loan and Rates	MWQFA Subsidies
Original Loan Amt.	1,700,000	1,700,000
Less: Loan Forgiveness 20%		(340,000)
Final Loan Amount	1,700,000	1,360,000
Est. Interest Rate	1.57%	0.87%
Loan Term years	20	20
Annual Debt Service	99,702	74,382
Savings		Annual Savings - $25,320 Total Savings - $846,400

Please review the following information and contact me at 410 537 3411 with any questions related to our assumptions and analyses. We look forward to working with you. Thanks again for the efforts from the City of Rockville and its staff in working with the MWQFA.

Sincerely,

Andrew Sawyers, Ph.D.
Program Administrator, MWQFA

CC: Jag Khuman, Director
Missy Martin, Senior Loan Officer
Larry Love, Financial Analyst

Project No. 1
WQSRF - Rockville Woottons Mill Park Stream Restoration ()
Loan Repayment Schedule
05/17/2005 15:49

Loan Interest Rate is 0.0% Paid Over 19 Years
Administrative Fees are not charged

	Principal	Interest Rate	Interest	Loan Payment	Annual Loan Payment	Administrative Fees	Total Payment	Total Annual Payment	Ending Balance
Feb 01 06									1,312,300.00
Aug 01 06	1,000.00			1,000.00			1,000.00		1,380,600.00
Feb 01 07	72,663.16			72,663.16	73,663.16		72,663.16	73,663.16	1,307,936.84
Aug 01 07									1,307,936.84
Feb 01 08	72,663.16			72,663.16	72,663.16		72,663.16	72,663.16	1,235,273.68
Aug 01 08									1,235,273.68
Feb 01 09	72,663.16			72,663.16	72,663.16		72,663.16	72,663.16	1,162,610.52
Aug 01 09									1,162,610.52
Feb 01 10	72,663.16			72,663.16	72,663.16		72,663.16	72,663.16	1,089,947.36
Aug 01 10									1,089,947.36
Feb 01 11	72,663.16			72,663.16	72,663.16		72,663.16	72,663.16	1,017,284.20
Aug 01 11									1,017,284.20
Feb 01 12	72,663.16			72,663.16	72,663.16		72,663.16	72,663.16	944,621.04
Aug 01 12									944,621.04
Feb 01 13	72,663.16			72,663.16	72,663.16		72,663.16	72,663.16	871,957.88
Aug 01 13									871,957.88
Feb 01 14	72,663.16			72,663.16	72,663.16		72,663.16	72,663.16	799,294.72
Aug 01 14									799,294.72
Feb 01 15	72,663.16			72,663.16	72,663.16		72,663.16	72,663.16	726,631.56
Aug 01 15									726,631.56
Feb 01 16	72,663.16			72,663.16	72,663.16		72,663.16	72,663.16	653,968.40
Aug 01 16									653,968.40
Feb 01 17	72,663.16			72,663.16	72,663.16		72,663.16	72,663.16	581,305.24
Aug 01 17									581,305.24
Feb 01 18	72,663.16			72,663.16	72,663.16		72,663.16	72,663.16	508,642.08
Aug 01 18									508,642.08
Feb 01 19	72,663.15			72,663.15	72,663.15		72,663.15	72,663.15	435,978.93
Aug 01 19									435,978.93
Feb 01 20	72,663.16			72,663.16	72,663.16		72,663.16	72,663.16	363,315.77
Aug 01 20									363,315.77
Feb 01 21	72,663.15			72,663.15	72,663.15		72,663.15	72,663.15	290,652.62
Aug 01 21									290,652.62
Feb 01 22	72,663.16			72,663.16	72,663.16		72,663.16	72,663.16	217,989.46
Aug 01 22									217,989.46
Feb 01 23	72,663.15			72,663.15	72,663.15		72,663.15	72,663.15	145,326.31
Aug 01 23									145,326.31
Feb 01 24	72,663.16			72,663.16	72,663.16		72,663.16	72,663.16	72,663.15
Aug 01 24									72,663.15
Feb 01 25	72,663.15			72,663.15	72,663.15		72,663.15	72,663.15	0.00
TOTAL	1,381,600.00			1,381,600.00	1,381,600.00		1,381,600.00	1,381,600.00	