

## Memorandum

To: Renee Dunham

From: Bradley J. Berg

Date: August 9, 2010

Subject: Legal Description of Proposed Obligations to be Issued to USDA to Finance the New Hospital Facility

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Our firm serves as bond counsel to Grays Harbor County Public Hospital District No. 1 (the "District") in connection with the proposed financing of part of the cost of constructing, equipping and furnishing the proposed new hospital facility in Elma, Washington. In that capacity, you asked us to describe the types of obligations the District proposes to issue to the United States Department of Agriculture ("USDA") in connection with the proposed financing. You also asked me to describe the source of repayment of those obligations. This memorandum responds to your request.

I understand that the current proposed financing plan provides for the District to issue two separate obligations to USDA to evidence direct loans from USDA to the District in the approximate aggregate amount of \$19,011,000. I further understand that one obligation would be issued in the form of a limited tax general obligation bond ("LTGO Bond") in the approximate amount of \$9,505,500 with a 30 year maturity and the other obligation would be issued in the form of a revenue obligation bond ("Revenue Bond") in the approximate amount of \$9,505,500 also with a 30 year maturity.

### Description of LTGO Bond

The LTGO Bond would be secured by the full faith, credit and resources of the District. For as long as any portion of the LTGO Bond was outstanding, the District would irrevocably pledge to include in its budget and levy property taxes annually, within the constitutional and statutory limitations provided by law without a vote of the electors of the District, on all of the taxable property within the District in an amount sufficient, together with other revenues of the District available and to be used therefor at the discretion of the Commission, to pay when due the principal of and interest on the LTGO Bond. The full faith, credit and resources of the District would be pledged irrevocably for the annual levy and collection of those taxes and the prompt payment of that principal and interest, even if the facilities financed with the proceeds of the LTGO Bond were no longer operating.

The tax that would be pledged to the payment of the LTGO Bond is commonly referred to as the “regular” property tax levy. The District may impose regular property taxes for general municipal purposes, including the payment of debt service on limited tax general obligation bonds. Subject to certain statutory and constitutional limitations, the District may levy regular property taxes, without voter approval, up to a maximum statutory amount of \$0.75/\$1,000 of assessed value. The statutory and constitutional limitations include: (i) a constitutional requirement that property taxes be levied at a uniform rate upon the same class of property within the territorial limits of a taxing district; (ii) constitutional and statutory requirements that limit aggregate regular property tax levies by the State and all taxing districts, except port districts and public utility districts, to 1% of the true and fair value of property; (iii) a statutory limitation that restricts the aggregate rate of regular levies by all overlapping taxing districts, other than the State, public utility districts and port districts, to a maximum of \$5.90/\$1,000 of the assessed valuation; and (iv) a statutory restriction on the amount of increase in an individual taxing district’s regular levy from one year to the next that limits a taxing district’s regular levy, without voter approval, to an amount equal to 100% of the district’s highest levy amount certified in the past three years, multiplied by a “limit factor,” plus a full value adjustment for new construction. The “limit factor” applicable to the District is 101%. Substantively, this means that the District must set its regular levy so that the property taxes payable in a given year (excluding new construction, improvements and State-assessed property) will not exceed the highest amount the District could have levied in any year since 1986 multiplied by 101%. Revenue generated due to new construction is outside of the levy limit. The District’s levy rate in 2010 is 49 cents per \$1,000 of assessed value, which will produce total property tax collections in 2010 of approximately \$590,000.

Applicable provisions of state law generally limit the amount of general obligation debt that the District may have outstanding at any one time to three-fourths of one percent of the value of the taxable property in the District. The indebtedness limit applies to all debt of the District payable from taxes including limited tax general obligation bonds and installment purchase contracts. However, state law creates a special exception for loan agreements entered into by a public hospital district with either the State of Washington or the United States, even if the loan is payable from taxes. Such loan agreements are excluded from the statutory limit of three-quarters of one percent and are only subject to the constitutional debt limit, which is 1.5%. I understand that the District’s assessed value for taxes collected in 2010 is \$1,184,317,318, which at the 1.5% level creates a debt limit of \$17,764,761. I further understand that the amount of general obligation debt, excluding the new bonds, the District expects to have outstanding in 2011 is \$1,313,369, which would leave sufficient debt capacity for the LTGO Bond.

#### Description of Revenue Bond

The Revenue Bond would be secured by a pledge of the “net revenue” of the District. Net revenue would be defined as all revenue produced through the operation of the District’s health care facilities and services available after paying the District’s operating and maintenance

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expenses. The District would pledge to pay all of its revenue (other than taxes) into a special fund and use the revenue to first pay operating and maintenance expenses and then pay debt service on the Revenue Bond. If excess revenue remained after paying operating and maintenance expense and debt service, the excess revenue could be used for other purposes. The Revenue Bond would constitute a lien and charge on the net revenue of the District prior and superior to any charges whatsoever, except to the extent that parity revenue bonds were permitted. No taxes would be pledged to the payment of the Revenue Bond. As a result, the Revenue Bond is not subject to any of the limitations described above relating to the LTGO Bond, including the debt limit.

cc: Ron Hulscher  
Jeff Fivecoat