Washington Federal.
invested here.

Pete Sullivan
Vice President
425 Pike Street
Seattle, WA 98101
206-626-8111
pete.sulllvan@wafd.com

September 5, 2018

Patty Miller
Commissioner
San Juan County Hospital District #3
P.O. Box 226
Eastsound, WA 98245

Sent via email to: pattym@orcashealth.org
richardf@orcashealth.org
cynthia.weed@klgates.com
scott.mcjannet@klgates.com

Regarding: $1,050,000 Borrowing (a Line of Credit & a Draw to Term Loan)

Dear Ms. Miller:

We enclose a summary of terms and conditions outlining the proposed terms under which Washington Federal may extend credit to the San Juan County Hospital District #3 (aka Orcas Island Health Care District). Please note that this is not a commitment to lend.

Washington Federal appreciates the opportunity to provide our financing proposal. Please call Pete Sullivan at 206-626-8111 to discuss any questions or comments you may have regarding our proposal. We look forward to working with you.

Sincerely,

Pete Sullivan
Vice President

San Juan County Hospital District #3
Financing Proposal

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Parties to the Transaction:

BORROWER:	San Juan County Hospital District #3 (the "Borrower")
LENDER:	Washington Federal N.A. (the "Bank")

The Credit Facility:

FACILITY:	A Line of Credit & a Draw to Term Loan (the "Credit Facility")
TOTAL FACILITY AMOUNT:	$1,050,000
CLOSING DATE:	October 19, 2018 (estimated)

The Draw to Term Loan:

FACILITY AMOUNT: $800,000

REPAYMENT/MATURITY:

Draw Period
Interest on the Credit Facility shall be paid in semi annual payments on May 1 and November 1, beginning May 1, 2019.

- Principal payments are not required during the draw period.
- The draw period ends on 11/1/2020.

Term Loan Period
Interest on the term loan period of the Credit Facility shall be paid semi-annually on each May 1 and November 1, beginning November 1, 2020.

Principal on the Credit Facility shall be repaid annually each year on November 1, beginning November 1, 2020.

A principal repayment schedule can be designed to meet the Borrower's needs and must be mutually agreed upon by Borrower and Bank. The Credit Facility will mature and all unpaid principal and interest will be due and payable at maturity on November 1, 2028.

INTEREST CALCULATION: All calculations of interest shall be made on a 30 day month and a 360 day year.

STEP DOWN OPTION: The Borrower may elect a "step down" option on the Credit Facility amount, which would allow the Borrower to reduce the borrowing amount at the end of the draw period.

PREPAYMENT:	If the Bank were able to redeploy the funds of the Credit Facility at a satisfactory higher rate (determined solely by the Bank), the Borrower may be able to prepay the Credit Facility without penalty before maturity.
INTEREST RATE:	The tax exempt fixed rate is locked until closing – **3.57%.**

The Revolving Line of Credit:

FACILITY AMOUNT:	$250,000
REPAYMENT:	The Borrower must repay the Credit Facility in semi-annual interest payments on May 1 and November 1, starting May 1, 2019. <u>Principal payments are not required until maturity.</u>
MATURITY:	The Credit Facility will mature and all unpaid principal and interest will be due and payable at maturity on November 1, 2021.
DRAWS	Draws under the Credit Facility may be requested on any banking day.
PREPAYMENT:	The Borrower may prepay the Credit Facility in whole or in part at any time without penalty.
INTEREST CALCULATION:	All calculations of interest and fees shall be made on the basis of actual number of days elapsed in a 360 day year.
INTEREST RATE:	The tax exempt rate is locked until closing – **3.46%** • This variable rate will reset annually on November 1, starting November 1, 2019. • The rate reset formula is based on the 1-Year LIBOR Rate, plus 1.55% multiplied by the calculation of 100 minus the highest marginal tax rate applied to subchapter C corporations, expressed as a decimal (currently 0.79).
UNUSED FEE:	$2,500 – Assessed annually on November 1. (a) The unused commitment fee will be <u>waived</u> if the average annual utilization is 50% or greater. Average Annual Utilization means the sum of the daily aggregate principal amount of all revolving credit advances for the year, divided by 360.

Security, Expiration & Fees:

SECURITY:	The Credit Facility is a limited tax general obligation bond of the Borrower. For as long as the Credit Facility is outstanding, the Borrower will irrevocably pledge that it will budget and appropriate money legally available from the Borrower's General Fund and from other money

legally available therefor, in amounts sufficient to pay the principal of and interest on the Credit Facility when due. The full faith, credit and resources of the Borrower will also be pledged irrevocably for the budget and appropriation of those amounts and the prompt payment of that principal and interest.

EXPIRATION:	This proposal letter shall automatically expire on October 19, 2018.
ORIGINATION FEE:	$5,000
BANK COUNSEL FEE:	Hillis, Clark, Martin & Peterson - $5,000

Description of Basic Terms and Conditions

COVENANTS: Usual and customary for transactions of this type.

DOCUMENTATION: Documentation will be usual and customary for transactions of this type, including:

(a) A copy of the Resolution passed by the Council/Board authorizing the issuance of the Credit Facility;
(b) A receipt of the original signed Note or Bond at closing;
(c) The resolution or financing/bond purchase agreement ("Agreement"), prepared by bond counsel and subject to approval by Bank Counsel.
(d) An unqualified legal opinion of nationally recognized bond counsel, in form and substance acceptable to Bank and its legal counsel that:
   i. The resolution and all documents related to the Credit Facility have been properly adopted, authorized and executed;
   ii. The resolution and all documents related to the Credit Facility constitute a legally binding obligation of the Borrower and enforceable according to their terms (subject to standard exceptions);
   iii. Interest on the Credit Facility is excluded from the gross income of the Bank for federal income tax purposes; and
   iv. The Borrower has designated the Credit Facility as either a "non bank qualified tax-exempt obligation" or "bank qualified".

REPORTING REQUIREMENTS: The Borrower shall provide the following information and statements in form and content acceptable to the Bank:
(a) Within 270 days after the close of each financial year of the Borrower, the complete audited financial statements of the Borrower.

EVENTS OF DEFAULT:	Usual and customary in transactions of this type including, without limitation the following: (a) Nonpayment of principal, interest, fees or other amounts; (b) Failure to perform or observe covenants set forth in the loan documentation; or (c) Loss of the tax-exempt status of the Credit Facility; or
DEFAULT RATE:	Upon the occurrence of a default, the interest rate on the Credit Facility shall increase by three percentage points (3.0%) per annum. Such default interest payable shall be subject to the statutory maximum interest rate, if any. Interest after the occurrence of a default shall be payable upon demand.

Description of the Process:

THE PROPOSAL:	This summary of terms is not a commitment. It represents a willingness on the part of the Bank to seek approval to provide the commitment indicated herein and consummate a transaction based on the terms and conditions outlined in the proposal and is subject to: (a) Final credit approval (see "Credit Process" below), (b) Such any due diligence as Bank may require, and (c) Agreement as to all final terms and conditions and satisfactory documentation thereof (including satisfactory legal opinions).
CREDIT PROCESS:	The credit process will take approximately 4-weeks from the point at which the Bank is officially awarded the transaction and has in its possession all materials necessary to undertake a full credit analysis. Washington Federal is a Seattle based, FDIC insured financial institution with total assets in excess of $15 billion. Washington Federal and assigned contacts have specific experience in lending to governmental issuers.

Contacts:

BANK:	Washington Federal N.A. Pete Sullivan 425 Pike Street Seattle, WA 98101 206-626-8111 pete.sullivan@wafd.com
BANK COUNSEL:	Hillis Clark Martin & Peterson P.S. Brandon Pond 999 Third Avenue, Suite 4600 Seattle, Washington 98104 206.470-7623

brandon.pond@hcmp.com

Agreement by the Borrower:

By signing below, the Borrower agrees to engage the Bank to provide the Credit Facility pursuant to the terms and conditions stated in this proposal, including the Borrower's responsibility for the Bank's legal fees even if closing & funding does not occur.

Please evidence your agreement with the foregoing by signing and returning a copy of this document to the Bank.

Accepted and Agreed to:

San Juan County Hospital District #3

Signature: ___________________________________ **Date:** ___________

Printed Name: _______________________________

Disclosure:

The transaction contemplated by this term sheet is an arm's length, commercial transaction between you and the Bank, in which the Bank (i) is acting solely as a principal and for its own interest; (ii) is not acting as a municipal advisor or financial advisor to you; (iii) has no fiduciary duty pursuant to Section 15B of the Securities Exchange Act of 1934 to you with respect to the transaction contemplated hereby and the discussions, undertakings and procedures leading thereto; and (iv) is not recommending that you take any action with respect to the transaction contemplated by this term sheet, and before taking any action with respect to the contemplated transaction, you should discuss the information contained herein with your own legal, accounting, tax, financial and other advisors, as it deems appropriate.

The only obligations the Bank has to you with respect to the transaction contemplated hereby are set forth in this term sheet. If you would like a municipal advisor in this transaction that has legal fiduciary duties to you, you are free to engage a municipal advisor to serve in that capacity. This term sheet is provided to you pursuant to and in reliance upon the "bank exemption" provided under the municipal advisor rule of the Securities and Exchange Commission, Rule 15Ba1-1 *et seq.*

ORAL AGREEMENTS OR ORAL COMMITMENTS TO LOAN MONEY, EXTEND CREDIT, OR TO FORBEAR FROM ENFORCING REPAYMENT OF A DEBT ARE NOT ENFORCEABLE UNDER WASHINGTON LAW.