

No. R- 1

\$1,000,000.00

UNITED STATES OF AMERICA
STATE OF IDAHO
COUNTY OF BLAINE

KETCHUM URBAN RENEWAL AGENCY
REVENUE ALLOCATION NOTE, SERIES 2007

<u>Interest Rate</u>	<u>Dated Date</u>
4.50% from Dated Date to August 31, 2010,	October 9, 2007
5.50% from August 31, 2010 to August 31, 2011	
and 6.50% from August 31, 2011 to August 31, 2012	

The KETCHUM URBAN RENEWAL AGENCY (the "Agency"), for value received, promises to pay from the Pledged Revenues as provided in the Agency's Note Resolution No. 07-URA 15, adopted by the Board of Commissioners of the Agency on September 4, 2007, (the "Note Resolution"), to

***STEVEN R. SHAFRAN ***

or register assigns, on the maturity date specified above, the total principal sum of

****ONE MILLION and NO/100 DOLLARS****

and to pay principal and interest thereon from October 9, 2007, at the rates per annum specified above, payable as set forth on Schedule 1, attached hereto.

Both principal of and interest on this Note are payable in lawful money of the United States of America to the Registered Owner hereof, whose name and address shall appear on the registration records of the Agency (the "Note Register") maintained by the Agency as Registrar. Payment of each installment of interest shall be calculated on the basis of a 360 day year consisting of twelve 30 day months, shall be made to the Registered Owner whose name appears on the Note Register at the close of business on the fifteenth day next preceding the interest payment date and shall be paid to such Registered Owner to be received by the due date at his address appearing on the Note Register, or at such other address as may be furnished in writing by such Registered Owner to the Registrar. Principal shall be paid to the Registered Owner at such address and at the times and in the amounts set forth on Schedule 1 attached hereto.

This Note shall not constitute an indebtedness within the meaning of any constitutional or statutory debt limitation or restriction, and shall not constitute a general obligation or debt of the City of Ketchum, Idaho, or of any municipality, the State of Idaho, or any of its political subdivisions. In no event shall this Note give rise to a general obligation or liability of the Agency, any municipality, the State of Idaho, or any of its political subdivisions, or give rise to a

charge against their general credit or taxing powers, or be payable out of any funds or properties other than those of the Agency specifically pledged therefor.

This Note is one of a duly authorized issue of Notes of like date, tenor, designation and effect, except for variations required to state numbers, denominations, rates of interest and dates of maturity, aggregating \$1,000,000 in principal amount. The Notes are issued in fully registered form, in denominations of \$100,000, or any integral multiple of \$5,000 above \$100,000 (provided that no single Note shall represent more than one maturity). The Notes are firm term, limited obligations of the Agency payable solely from Pledged Revenues as defined in the Note Resolution but are not subject to annual appropriation. Additional Obligations, of a different series, may be issued subject to compliance with the Note Resolution. For a more particular description of said Pledged Revenues, and the nature and extent of the security afforded thereby, reference is made to the provisions of the aforementioned Note Resolution. All capitalized terms used in this Note shall have the meanings given to them by the Note Resolution unless expressly defined otherwise herein.

This Note and the Notes of this issue are general obligations of the Agency. The Notes constitute a lien and charge upon the Pledged Revenues on a parity with the Agency's Prior Obligations. The Agency will covenant to make payments from Pledged Revenues on each annual interest payment date. Pledged Revenues are defined as the incremental taxes assessed and collected against real and personal property in the Revenue Allocation Area from the January 1, 2006 base. As security for the Bonds, the Agency will pledge all Pledged Revenues for payment of the Note subject only to the parity liens of the Agency's the Prior Obligations and any Additional Obligations allowed under the Note Resolution.

This Note and the Notes of this issue are issued by the Agency pursuant to and in full compliance with the Constitution and laws of the State of Idaho, particularly the Idaho Urban Renewal Law of 1965, being Idaho Code, Title 50, Chapter 20 and the Local Economic Development Act, being Idaho Code, Title 50, Chapter 29, (collectively, the "Law"), and also pursuant to the Note Resolution, for the purpose of providing part of the moneys to finance the Costs of Financing and Acquisition of the Project. The Notes are issued by the Agency in connection with an urban renewal project (as defined in the Law), and pursuant to Section 50-2012(f) of the Idaho Code, this Note shall be conclusively deemed to have been issued for such purpose and such Project shall be conclusively deemed to have been planned, located, and carried out in accordance with the provisions of the Law.

The Notes are subject to redemption prior to their stated dates of maturity as provided in the Note Resolution.

Unless waived by the Registered Owner of this Note, notice of any such redemption shall be sent by the Registrar by first class mail not less than thirty (30) nor more than sixty (60) days prior to the date fixed for redemption to the Registered Owner at the address shown on the Note Register maintained by the Registrar, or at such other address as may be furnished in writing by such Registered Owner to the Registrar. When so called for redemption, such Note shall cease to accrue interest on the specified redemption date, provided funds for redemption are on deposit at the place of payment at that time, and such Note shall not be deemed to be Outstanding as of such redemption date.

This Note is transferable or exchangeable by the Registered Owner hereof in person, or by his attorney duly authorized in writing, upon presentation and surrender of this Note at the principal corporate trust office of the Registrar. Upon such transfer or exchange, a new Note or Notes of authorized denomination or denominations, of equal aggregate principal amount and of the same maturity and interest rate, will be issued to the transferee or exchange, in exchange therefor. Provided, however, that the Registrar shall not be required to transfer all or any portion of this Note within fifteen (15) calendar days prior to its date of maturity or an interest payment date.

The Registrar may deem and treat the Registered Owner hereof as the absolute owner hereof for the purpose of receiving payments of principal hereof and interest due hereon and for all other purposes, and the Registrar shall not be affected by any notice to the contrary.

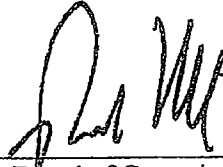
The Agency has covenanted and agreed with the Registered Owner of the Note that it will keep and perform all of the covenants of this Note and of the Note Resolution to be by it kept and performed.

The covenants contained herein and in the Note Resolution may be discharged by making provision, at any time, for the payment of the principal of and interest on this Note in the manner provided in the Note Resolution.

IT IS HEREBY CERTIFIED AND DECLARED that all acts, conditions, and things essential to the validity of this Note do exist, have happened, and have been done and that every requirement of the Constitution and statutes of the State of Idaho and the Resolutions and resolutions of the Agency affecting the issue hereof have been duly complied with; the Pledged Revenues have been pledged to be used for the payment of principal of and interest on this Note in the order of priority provided in the Note Resolution.

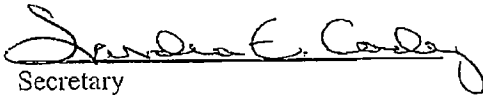
IN WITNESS WHEREOF, the Ketchum Urban Renewal Agency, has caused this Note to be executed by the manual or facsimile signatures of the Chairman of the Board of Commissioners, attested by the manual or facsimile signature of the Secretary, and the seal of the Agency imprinted hereon, as of this 9th day of October, 2007.

KETCHUM URBAN RENEWAL AGENCY

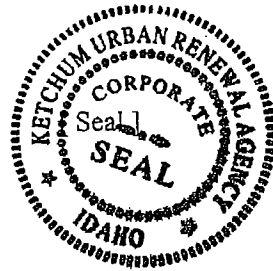


Chairman, Board of Commissioners

ATTEST:



Secretary



LEGAL OPINION

It is hereby certified that a true and complete copy of the legal opinion of Skinner Fawcett, of Boise, Idaho, is on file in my office, which opinion is dated the date of delivery of and payment for the Note described therein, an original of which was delivered to me on said date, and is a part of the permanent records of the Agency.

KETCHUM URBAN RENEWAL AGENCY


Secretary

The following abbreviations, when used in the inscription on the face of this Note, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM -- as tenants in common	(Cust)	UNIF TRFS MIN ACT (Minor)
------------------------------------	--------	--

TEN ENT -- as tenants by the entirety		under Uniform Transfer to Minors Act (State)
--	--	--

JT TEN -- as joint tenants with right of survivorship and not as tenants in common		
--	--	--

Additional abbreviations may also be used although not in the above list.

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned hereby sells, assigns, and transfers unto

Name of Transferee: _____

Address: _____

Tax Identification No. _____

the within Note on the books kept for registration thereof with full power of substitution in the premises.

Dated: _____

Registered Owner

Registered Owner

NOTE: The signature on this Assignment must correspond with the name of the Registered Owner as it appears upon the face of the within Note in every particular, without alteration or enlargement or any change whatever.

SIGNATURE GUARANTEED:

Bank, Trust Company or Member Firm
of the New York Stock Exchange

Authorized Officer

Schedule 1

PAYMENT SCHEDULE

Ketchum Urban Renewal Agency
Revenue Allocation Note, Series 2007

Payment Date	Principal	Interest	Total Payment
8/31/2008	-	40,250	40,250
8/31/2009	-	45,000	45,000
8/31/2010	-	45,000	45,000
8/31/2011	-	55,000	55,000
8/31/2012	1,000,000	65,000	1,065,000
TOTAL	1,000,000	250,250	1,250,250

RESOLUTION NO. 07-URA15

A RESOLUTION OF THE BOARD OF COMMISSIONERS OF THE KETCHUM URBAN RENEWAL AGENCY, AUTHORIZING THE ISSUANCE OF UP TO \$1,000,000 PRINCIPAL AMOUNT OF REVENUE ALLOCATION NOTES, SERIES 2007; DESCRIBING AND PROVIDING FOR SAID NOTES; AUTHORIZING THE EXECUTION AND DELIVERY OF THE NOTES, A NOTE PURCHASE AGREEMENT AND RELATED DOCUMENTS; PROVIDING FOR AN EFFECTIVE DATE OF THIS RESOLUTION; AND PROVIDING FOR OTHER MATTERS PROPERLY RELATING THERETO.

KETCHUM URBAN RENEWAL AGENCY

REVENUE ALLOCATION NOTES, SERIES 2007
AGGREGATE PRINCIPAL AMOUNT OF UP TO \$1,000,000

WHEREAS, the Ketchum Urban Renewal Agency, (herein referred to as the "Agency"), an independent public body corporate and politic, is an Urban Renewal Agency created by and existing under the authority of and pursuant to the Idaho Urban Renewal Law of 1965, being Title 50, Chapter 20, Idaho Code as amended and supplemented, as amended and supplemented (collectively, the "Law"); and

WHEREAS, the Agency is authorized to conduct proceedings and to issue revenue bonds and notes pursuant to the terms and provisions of the Law, for the purpose of financing urban renewal projects authorized under its Urban Renewal Plan (defined below); and

WHEREAS, the City Council of the City of Ketchum, Idaho (the "City"), after notice duly published, conducted a public hearing on October 30, 2006, on the Urban Renewal Plan for the Ketchum Urban Renewal Project (the "Urban Renewal Plan"); and

WHEREAS, following said public hearing, the City Council adopted its Ordinance No. 992 adopted on November 15, 2006, approving the Urban Renewal Plan as amended, and making certain findings; and

WHEREAS, the Agency now desires to undertake the acquisition and construction of certain streetscape and related improvements in the City (the "Project"); and

WHEREAS, in order to provide financing for the Project, the Agency now desires to authorize the issuance, sale and delivery of revenue allocation notes in the principal amount of up to an aggregate amount of \$1,000,000, in order to provide funds to be used for acquisition of a portion of the Project; and

WHEREAS, on August 29, 2007, a notice of negotiated note sale was published in the Idaho Mountain Express, a newspaper of general circulation in the City, as required by Idaho Code, Section 50-2012 as amended; and

WHEREAS, a Note Purchase Agreement to purchase the Notes has been submitted to the Agency by Steven R. Shafran, for its acceptance; and

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF COMMISSIONERS OF THE KETCHUM URBAN RENEWAL AGENCY, as follows:

SECTION 1. DEFINITIONS. For all purposes of this Resolution, except as otherwise expressly provided or unless the context otherwise requires, the following terms shall have the following meanings:

Additional Obligations shall mean additional obligations of the Agency, payable from Pledged Revenues as referenced in Section 10 of this Note Resolution.

Agency shall mean the Ketchum Urban Renewal Agency, an Urban Renewal Agency created by and existing under the authority of the Law as an independent public body corporate and politic.

Authorized Officer means the Chairman, Vice-Chairman, Executive Director or Secretary of the Agency or any other officer authorized by resolution of the Agency.

Board shall mean the Board of Commissioners of the Agency as the same shall be duly and regularly constituted from time to time.

City shall mean the City of Ketchum, Idaho.

Consultant's Report shall mean a report signed by an independent financial consultant or an independent redevelopment consultant, as may be appropriate to the subject of the report, and including:

- (1) a statement that the person or firm making or giving such report has read the pertinent provisions of this Note Resolution to which such report relates;
- (2) a brief statement as to the nature and scope of the examination or investigation upon which the report is based;
- (3) a statement that, in the opinion of such person or firm, sufficient examination or investigation was made as is necessary to enable said independent financial consultant or independent redevelopment consultant to express an informed opinion with respect to the subject matter referred to in the report.

Cost of Financing and Acquisition or Costs with respect to the Project shall include, together with any other proper item of cost not specifically mentioned herein, the cost of demolition, the cost of financing, acquisition and construction of the Project and the financing thereof, the cost, whether incurred by it or another, of field surveys and advance planning undertaken in connection with the Project, and the cost of financing acquisition of any land or interest therein required as the sites thereof or for use in connection therewith, the cost of clearing and preparation of the sites thereof and of any land to be used in connection therewith, the cost of any indemnity and surety bonds and insurance premiums, allocable administrative and general expenses of the Agency, and allocable portions of inspection expenses, legal fees, fees and expenses of the Agency for the Notes, all other

costs of issuance of the Notes, financing charges and fees and expenses of financial advisors and consultants in connection therewith, cost of audits, the cost of all machinery, apparatus and equipment, cost of engineering, the cost of utilities, architectural and engineering services, design, plans, specifications and surveys, estimates of cost, the payment of any notes of the Agency (including any interest and redemption premiums) issued to temporarily finance the payment of any item or items of cost of the Project and payable from the proceeds of the Notes, and all other expense necessary or incident to determining the feasibility or practicability of the Project, and such other expenses not specified herein as may be necessary or incident to the financing, construction and acquisition of the Project, the financing thereof and the placing of the same in use and operation.

Debt Service for any period shall mean, as of any date of calculation, an amount equal to the interest accruing and any payment of principal, including redemption price, during such period on the Notes or other obligations. Such Debt Service of the Notes shall be calculated on the assumption that no portion of the Notes or other obligations Outstanding at the date of calculation will cease to be Outstanding except by reason of the payment of principal on the Notes or other obligations on the due date thereof.

Law shall mean the Idaho Urban Renewal Law of 1965, being Title 50, Chapter 20, Idaho Code as amended and supplemented and The Economic Development Act of 1988, being Title 50, Chapter 29, Idaho Code, as amended and supplemented.

Maximum Annual Debt Service shall mean an amount equal to the greatest annual Debt Service with respect to the Notes or other obligations for the current or any future year under the Notes or other obligations. With respect to any term notes, the payment of which is provided for by mandatory schedule of sinking fund payments, the words "greatest annual Debt Service" shall be deemed to exclude from principal the term Note or other obligations maturity payment, and from interest the interest on such term Notes or other obligations subsequent to the date of each respective mandatory sinking fund deposit, and to include in lieu thereof the mandatory sinking fund deposits as of the date required and interest on term Notes or other obligations provided for by such deposits only to the dates of the respective deposits.

Note or Notes shall mean the Agency's Revenue Allocation Notes, Series 2007, in substantially the form set forth in Exhibit "A" hereto, herein authorized to be issued, sold and delivered, in the approximate aggregate principal amount of up to \$1,000,000 for purposes of paying for costs of acquisition of the Project and paying the costs of issuing the Notes.

Note Counsel shall mean Skinner Fawcett, Boise, Idaho or another nationally recognized Note counsel acceptable to the Agency.

Note Purchase Agreement means the Note Purchase Agreement dated on or after September 4, 2007, for purchase of the Notes hereto, between the Agency and the Purchaser.

Note Register shall mean the registration records of the Agency, maintained by the

Registrar, on which shall appear the names and addresses of the Registered Owners of the Notes.

Outstanding, when used with reference to the Notes, as of any particular date, shall mean the Notes which have been issued, executed, authenticated and delivered under this Note Resolution, except (i) the Notes (or portion thereof) cancelled because of payment or redemption prior to its stated date of maturity, and (ii) the Notes (or portion thereof) cancelled because of payment or redemption of which there has been separately set aside and held money for the payment thereof.

Plan or Urban Renewal Plan means the Agency's Urban Renewal Plan for its Ketchum Urban Renewal Project Area.

Prior Obligations means a Promissory Note in the original principal amount of \$1,550,000, dated December 15, 2006 of the Agency as obligor to Thomas P. Ziegler, trustee of the Thomas P. Ziegler Trust, Lynn T. Levy and JoAnn Levy, husband and wife, and David Duval (this Promissory Note is currently being refinanced through the Idaho Housing and Finance Association in the amount of up to \$2,000,000 and which shall constitute a Prior Obligation once completed) and a Real Estate Purchase and Sale Agreement dated April 20, 2007 in the original principal amount of \$3,200,000 of the Agency as obligor to Mountain West Bank. Purchaser has been given copies of the documents evidencing these Prior Obligations.

Private Person shall mean any natural person engaged in a trade or business or any trust, estate, partnership, association, company or corporation.

Private Person Use shall mean the use of property in a trade or business by a Private Person if such use is other than as a member of the general public. Private Person Use includes ownership of the property by the Private Person as well as other arrangements that transfer to the Private Person the actual or beneficial use of the property (such as a lease, management or incentive payment contract or other special arrangement) in such a manner as to set the Private Person apart from the general public. Use of property as a member of the general public includes attendance by the Private Person at municipal meetings or business rental of property to or by the Private Person on a day-to-day basis if the fee paid by such Private Person is the same as the fee paid by any Private Person who desires to rent or otherwise use the property. Use of property by nonprofit community groups or community recreational groups is not treated as Private Person Use if such use is incidental to the govern-mental uses of property, the property is made available for such use by all such community groups on an equal basis and such community groups are charged only a *de minimis* fee to cover custodial expenses.

Project has the meaning set forth in Section 2. hereof.

Purchaser means Steven R. Shafran.

Registered Owner means the Purchase and its transferees or successors.

Registrar shall mean the Agency and its successors in interest which shall maintain the

Note Register and otherwise provide for the registration and authentication of the Notes.

Revenue Allocation Area shall mean the expanded area so designated under the Urban Renewal Plan as amended and such additional area as may be added by the Agency and approved by the City in accordance with the Law.

United States shall mean the United States of America.

The words "hereof", "herein," "hereto," "hereby" and "hereunder" (except in the form of Notes) refer to this Resolution. Unless otherwise noted, all Section and Article references are to sections and articles in this Note Resolution.

SECTION 2. THE PROJECT. The Project consists of the acquisition and construction of streetscape improvements including without limitation the projects identified as "Streets" in Section 1.1.7 of Attachment No. 4.1.1 of the Plan, "Street Projects" in Section 1.2.7 of Attachment 4.1.2 of the Plan and Project No. ST3-4th Street Phase One Spruce to Main all as further described in the Urban Renewal Plan. The Agency hereby authorizes and directs the appropriate officers and agents of the Agency to apply the proceeds of the Notes less amounts required for the costs of issuance of the Notes in order to finance a portion of the Project, consistent with the terms of the Note Purchase Agreement and the Urban Renewal Plan. The Cost of the Project is estimated at up to at least \$1,000,000.

SECTION 3. THE NOTES, SECURITY FOR NOTES.

- A. Notes Authorized: Findings. In order to provide financing for the acquisition of the Project, the Agency shall issue its Notes, which are hereby authorized to be issued and designated Ketchum Urban Renewal Agency, Revenue Allocation Notes, Series 2007.
- B. Description of Notes. The Notes shall be issued as provided in the form of Note attached hereto as Exhibit "A" and in the Note Purchase Agreement and shall be in the aggregate principal amount of up to \$1,000,000. The Notes shall be in the denominations of \$100,000 and integral multiples of \$5,000 above \$100,000, shall be dated the date of closing and delivery and shall be subject to call and redemption at such times and such circumstances as provided in the Note Purchase Agreement and the Notes.
- C. Interest. The Notes shall bear interest from their date, or from the most recent date to which interest has been paid or duly provided for, and under such other terms as provided for in the Note Purchase Agreement and the Notes.
- D. Pledge of Revenue Allocation (Tax Increment) Revenues. The Agency hereby pledges to the payment of the Notes its incremental tax revenues received by the Agency together with any other revenues (the "Pledged Revenues") from the revenue allocation area designated and described in the Plan, as amended, subject to and subordinate to the pledge of such revenues by the Agency. The Agency will covenant to make payments from Pledged Revenues on each annual interest payment date. Pledged Revenues are defined as the incremental taxes assessed and collected against real and personal property in the Revenue Allocation Area from the January 1, 2006 base. As security for the Bonds,

the Agency will pledge all Pledged Revenues for payment of the Note subject only to the parity liens of the Prior Obligations and any Additional Obligations allowed under this Note Resolution.

E. In addition the Notes shall be a general obligation of the Agency.

SECTION 4. SALE OF THE NOTES AND EXECUTION OF THE NOTES AND OTHER DOCUMENTS.

A. Sale and Execution. The sale of the Notes to the Purchaser, in accordance with the terms and provisions set forth in the Note Purchase Agreement, at a fixed interest rate not to exceed 4.50% per annum from the date of issuance of Notes until August 31, 2010, 5.50% per annum from August 31, 2010 to August 31, 2011 and 6.50% per annum from August 31, 2011 to August 31, 2012. The Note Purchase Agreement and the Notes and all related documents are hereby approved for execution by any Authorized Officer in substantially the form presented at this meeting.

B. Application of Proceeds. The proceeds of the Notes shall, upon delivery thereof, be applied by the Agency to the payment of Costs of the Project and pending such application may be held in the general account of the Agency. The Chairman, Vice-Chairman, Secretary, Treasurer or Executive Director of the Agency are hereby authorized and directed to do all things necessary for the prompt execution and delivery of the Notes, the Note Purchase Agreement and all related documents and for the proper use and application of the proceeds of sale thereof, and further all other documents related to the Project and the sale and issuance of the Notes in accordance with the Note Purchase Agreement.

C. Payment of Debt Service. Payment of each installment of principal and interest shall be as provided in the form of Note attached hereto and shall be made to the Registered Owner and shall be paid by the Agency to be received by the Registered Owner at such address as may be furnished in writing by such Registered Owner to the Registrar.

D. Redemptions. (1) The Agency hereby reserves the right, at its option, to redeem the Notes, in whole but not in part, on any interest payment date hereafter, at the redemption price of 100% of the Outstanding amount of Notes, plus accrued interest to the date fixed for redemption.

(2) The Notes are subject to mandatory redemption in whole (but not in part) not more than 45 days after a Determination of Taxability upon the occurrence of a Determination of Taxability. Each Note redeemed as a result of a Determination of Taxability shall be redeemed at 100% the principal amount thereof, plus accrued interest to the redemption date. "Determination of Taxability" means any final determination, decision or decree, all applicable appeals periods with respect to which shall have expired, made by the Commissioner or any District Director of the Internal Revenue Service or by any court of competent jurisdiction, or an Opinion of Counsel, that interest on the Notes is not excludable under Section 103 (a) of the Code from gross income of any Owner of the Notes for regular federal income tax purposes.

(3) In addition, notwithstanding the maturity date of August 31, 2012, Purchaser may, if judicial confirmation is not obtained as provided for in the Note Purchase Agreement, require the Agency to prepay the Note in full on June 1, 2008. In such event, Purchaser will give Issuer the Agency written notice thereof at least 45 days prior to such mandatory redemption date.

E. Notice of Redemption. Unless waived by the Registered Owner of any Note to be redeemed, notice of any such redemption shall be sent by the Registrar by first class mail, postage prepaid, not less than thirty (30) nor more than sixty (60) days prior to the date fixed for redemption, to the Registered Owner of each Note to be redeemed at the address shown on the Note Register. This requirement shall be deemed to be complied with when notice is mailed as herein provided, regardless of whether or not it is actually received by the Registered Owner of any Note to be redeemed. The expenses of giving notice and any other expenses of redemption shall be borne by the Agency. Notice of such redemption shall also be given to any rating agency at the same time as specified in this subsection.

F. Effect of Redemption. When so called for redemption, such Notes shall cease to accrue interest on the specified redemption date, provided funds for redemption are on deposit at the place of payment at that time, and such Notes shall not be deemed to be outstanding as of such redemption date.

G. Registration. The Agency is hereby appointed Note Registrar and shall cause a register (herein sometimes referred to as "Note Register") to be kept for the registration of Notes and the registration of transfers of Notes. The registration of any Note may be transferred only upon an assignment duly executed by the registered holder or his duly authorized representative in such form as shall be satisfactory to the Agency, and upon surrender of such Note to the Agency for cancellation. Whenever any Note or Notes shall be surrendered for registration or transfer, the Agency shall execute and deliver to the transferee a new Note or Note of like series and maturity of authorized denomination or denominations and for the amount of such Note or Notes so surrendered.

Any Note may be exchanged at the office of the Agency, for a new Note or Notes, of the same series and maturity, of any authorized denomination or denominations and for the aggregate amount of such Note then remaining Outstanding.

Notwithstanding the foregoing, no Notes may be transferred or exchanged in violation of any applicable federal or state securities laws.

In all cases in which the registration of Notes shall be transferred or Notes shall be exchanged hereunder, the Agency may make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect to such transfer or exchange. The Agency shall not be required to transfer any Note after the publication of notice calling such Note for redemption has been made, or during the period of fifteen days next preceding publication of a notice of redemption of any Notes. The Agency may also charge a sum sufficient to pay costs of issuing each new Note.

The person in whose name any Note shall be registered shall be deemed and regarded as the absolute owner thereof for all purposes and payment of or on account of the principal of and premium and interest on any such Note shall be made only to or upon the order of the registered holder thereof, or his legal representative, and neither the Agency shall not be affected by any notice to the contrary. All such payments shall be valid and effectual to satisfy and discharge the liability upon such Note to the extent of the sum or sums to be paid.

SECTION 5. REVENUE ALLOCATION FUND; PAYMENT OF NOTES. There shall be established a fund, separate and apart from all other funds of the Agency, designated the Revenue Allocation Fund, (the "Revenue Allocation Fund"). All Pledged Revenues received as tax increment revenues from the Revenue Allocation Area shall be promptly deposited upon receipt by the Agency in the Revenue Allocation Fund. Except as provided in Section 10 or elsewhere in this Note Resolution, the said Pledged Revenues deposited therein shall, except for payment of the Prior Obligations or Additional Obligations authorized under Section 10 hereof on a parity with the Bonds, be used only for the following purposes and in the following order of priority:

First, to pay or provide for the payment of the interest on the Notes by deposits into the Note Fund;

Second, to pay or provide for the payment of the principal and redemption premium, if any, of the Notes by deposits into the Note Fund;

Third, to pay for any repairs, additions or improvements to the Project or for any new project in the Revenue Allocation Area approved by the Agency in accordance with the law, provided there shall be retained in the fund the amount necessary to make all Debt Service payments due during the next twelve (12) months until such time as such annual Pledged Revenues exceed the Maximum Annual Debt Service on the Bonds, with the understanding that any amounts so retained in the fund shall be invested at a yield not greater than the yield on the Bonds in compliance with applicable provisions of the Code and regulations thereunder.

SECTION 6. FURTHER AGENCY COVENANTS. The Agency covenants and agrees with the Registered Owner of the Notes as follows:

A. Punctual Payment. The Agency will punctually pay or cause to be paid the interest on and principal of and redemption premiums, if any, to become due with respect to the Notes, in strict conformity with the terms of the Notes and of the Note Resolution, and will faithfully satisfy, observe and perform all conditions, covenants and requirements of the Notes and of the Note Resolution.

B. Against Encumbrances. The Agency will not mortgage or otherwise encumber, pledge or place any charge upon any of the Pledged Revenues and will not issue any obligation or security superior to or on a parity with the Notes payable in whole or in part from the Pledge Revenues, except as provided in this Note Resolution.

C. Extension or Funding of Claims for Interest. In order to prevent any claims for interest after maturity, the Agency will not, directly or indirectly, extend or consent to the extension of the time for the payment of any claim for interest any Notes and will not,

directly or indirectly, be a party to or approve any such arrangements by purchasing or funding said claims for interest or in any other manner. In case any such claim for interest shall be extended or funded, whether or not with the consent of the Agency, such claim for interest so extended or funded shall not be entitled, in case of default hereunder, to the benefits of the Note Resolution, except subject to the prior payment in full of the principal of all of the Notes then Outstanding and of all claims for interest which shall not have been so extended or funded.

D. Management and Operation of Properties. The Agency will manage and operate any property owned by the Agency and comprising any part of the Project or the Revenue Allocation Area in a sound and business-like manner and in conformity with all valid requirements of any governmental authority relative to the project or any part thereof, and will keep such property insured at all times in conformity with sound business practice.

E. Payment of Claims. The Agency will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien or charge upon the properties owned by the Agency or upon the Pledged Revenues or any part thereof, or upon any funds in the hands of the Trustee, or which might impair the security of the Notes; provided that nothing herein contained shall require the Agency to make any such payments so long as the Agency in good faith shall contest the validity of any such claims.

F. Books and Accounts; Financial and Project Statements. The Agency will keep proper books of record and accounts, separate from all other records and accounts of the Agency, in which complete and correct entries shall be made of all transactions relating to the Project and the funds created hereunder. Such books of record and accounts shall at all times during business hours be subject to the inspection of the Registered Owners of not less than twenty-five percent (25%) of the aggregate amount of Outstanding Notes or their representatives authorized in writing.

G. Protection of Security and Rights of Registered Owners. The Agency will preserve and protect the security of the Notes and the rights of the Registered Owners, and will warrant and defend their rights against all claims and demands of all person. From and after the sale and delivery of the Notes by the Agency, such Notes shall be incontestable by the Agency.

H. Payment of Taxes and Other Charges. Subject to the provisions of Section 6(I) hereof, the Agency will pay and discharge any taxes, service charges, assessments and other governmental charges which may hereafter be lawfully imposed upon the Agency or any properties owned by the Agency in the Revenue Allocation Area, or upon the revenues therefrom, when the same shall become due; provided that nothing herein contained shall require the Agency to make any such payments so long as the Agency in good faith shall contest the validity of any such taxes, service charges, assessments or other governmental charges.

I. Taxation of Leased Property. If any property in the Revenue Allocation Area is hereafter owned and redeveloped by the Agency and thereafter is leased by the Agency to any person or persons, or whenever the Agency leases any such real property to any person or persons for redevelopment, the property shall be assessed and taxed in the same manner

as privately owned property (in accordance with the law), and the lease or contract shall provide (1) that the lessee shall pay taxes upon the assessed value of the entire property and not merely upon the assessed value of the leasehold interest, and (2) that if for any reason the taxes paid by the lessee on such property in any year during the term of the lease shall be less than the taxes that would have been payable upon the entire property if the property were assessed and taxed in the same manner as privately owned property, the lessee shall pay such difference to the Agency within thirty (30) days after the taxes for such year become payable, and in any event prior to the delinquency date of such taxes established by law, which such payments shall be treated as Revenue Allocation Revenues and shall be deposited by the Agency in the Revenue Allocation Fund.

J. Disposition of Property in Revenue Allocation Area. The Agency will not, except as otherwise provided in this Section 6(J) and except for property currently owned by the City in the Revenue Allocation Area, authorize the disposition of any such real property in the Revenue Allocation Area to anyone which will result in such property becoming exempt from taxation because of public ownership or use or otherwise (except for public ownership or use contemplated by the Revenue Allocation Area under the Urban Renewal Plan in effect on the date of adoption of the Note Resolution, or property to be used for public streets or easements or rights of way for public utilities, or other similar uses). If such dispositions, together with all similar prior dispositions on or subsequent to the effective date of the Note Resolution, shall comprise more than ten percent (10%) of the land area in the Revenue Allocation Area, it shall cause to be filed with the Purchaser a Consultant's Report on the effect of such proposed disposition. If the Consultant's Report concludes that the Pledged Revenues will not be materially reduced by such proposed disposition, the Agency may proceed with such proposed disposition. If the Consultant's Report concludes that Revenue Allocation Revenues will be materially reduced by such proposed disposition, the Agency shall, as a condition precedent to proceeding with such proposed disposition, require that such new owner or owners either:

(1) Pay to the Agency, subject to any payments on the Prior Obligations, so long as any of the Notes are Outstanding, an amount equal to the amount that would have been received by the Agency as Pledged Revenues if such property were assessed and taxed in the same manner as privately-owned non-exempt property, which payment shall be made within thirty (30) days after taxes for each year would become payable to the taxing agencies for non-exempt property and in any event prior to the delinquency date of such taxes established by law; or

(2) Pay to the Agency, subject to any payments on the Prior Obligations, a single sum equal to the amount estimated by an independent redevelopment consultant to be receivable from taxes on such property from the date of such payment to the last maturity date of all Outstanding Notes, less a reasonable discount value.

All such payments to the Agency in lieu of taxes shall be treated as Pledged Revenues and shall be deposited in the Revenue Allocation Fund and may be available as Pledged Revenues for payment of the Notes provided that the Agency first receives an opinion of Note Counsel to the effect that the above payments will not jeopardize the exemption of interest on the Notes from federal tax.

K. Amendment of Urban Renewal Plan. The Agency will not amend the Urban Renewal Plan except as provided in this Section 6(K). If the Agency proposes to amend the Urban Renewal Plan for any purpose other than to expand the Revenue Allocation Area, to extend the termination date of the Plan or to create an additional and separate revenue allocation area under Title 50, Chapter 29, Idaho Code, as amended which does not overlap the Revenue Allocation Area (both of which are permitted hereunder), it shall cause to be filed with the Purchaser a Consultant's Report on the effect of such proposed amendment. If the Consultant's Report concludes that Pledged Revenues will not be materially reduced by such proposed amendment, the Agency may undertake such amendment. If the Consultant's Report concludes that the Pledged Revenues will be materially reduced by such proposed amendment, the Agency may not undertake such proposed amendment.

L. Further Assurances. The Agency will adopt, make, execute and deliver any and all such further Resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Note Resolution, and for the better assuring and confirming unto the Registered Owner of the Notes of the rights and benefits provided in the Note Resolution.

M. Accounts and Reports.

(1) The Agency shall keep proper books of record and account (separate from all other records and accounts) in which complete and correct entries shall be made of its transactions relating to the Project and each fund and account established under this Note Resolution, and which, together with all books and papers of the Agency, including insurance policies, relating to the Project, shall at all times be subject to the inspection of the Purchaser or its representative duly authorized in writing.

(2) The Agency shall annually, within 180 days after the close of each Fiscal Year, file with the Purchaser, and otherwise as provided by law, a copy of an audited annual report for each year, accompanied by an accountant's certificate, and including the following statements in reasonable detail: a balance sheet showing assets and liabilities as of the end of such year, to the extent relating to the project a statement of Pledged Revenues, expenses and changes in retained earnings for such year; and a summary with respect to each fund and account established under this Note Resolution of the receipt therein and disbursements therefrom during such year and the amount held therein at the end of such year. The accountant or accounting firm completing the Accountant's Bond shall provide a written statement as to whether or not, to the knowledge of the signer, the Agency is in default with respect to any of the covenants, agreements or conditions on its part contained in this Note Resolution, and if so, the nature of such default.

(3) The reports, statements and other documents required to be furnished to the Purchaser pursuant to any provisions of this Note Resolution shall be available for the inspection of Registered Owners of the Notes at the office of the Agency and

the reports mentioned in subsection (3) shall be mailed to each Registered Owner who shall file a written request therefor with the Agency.

(4) The Agency will provide all reports as required under the Law.

N. General.

(1) The Agency shall do and perform or cause to be done and performed all acts and things required to be done or performed by or on behalf of the Agency under the provisions of the Law and this Note Resolution.

(2) Upon the date of delivery of the Notes, all conditions, acts and things required by law and this Note Resolution to exist; to have happened and to have been performed precedent to and in the issuance of such Notes shall exist, have happened and have been performed and the issue of such Notes, together with all other indebtedness of the Agency, shall comply in all respects with the applicable laws of the State of Idaho.

(3) The Notes are issued in connection with an Urban Renewal Project, as defined in the Law. Accordingly, in any suit, action or proceeding involving the validity or enforceability of the Notes, the Notes shall be conclusively deemed to have been issued for such purpose and such Urban Renewal Project shall be conclusively deemed to have been planned, located and carried out in accordance with the provisions of the law.

O. Arbitrage: Special Tax Covenants. The Agency shall comply with the provisions of this Section unless, in the written opinion of Note Counsel, such compliance is not required in order to maintain the exemption of the interest on the Notes from federal income taxation.

The Agency hereby covenants that it will not make any use of the proceeds of sale of the Notes or any other funds of the Agency which may be deemed to be proceeds of such Notes pursuant to Section 148 of the Code which will cause the Notes to be an "arbitrage bond" within the meaning of said Section. The Agency will comply with the requirements of Section 148 of the Code (or any successor provision thereof applicable to the Notes) throughout the term of the Notes.

The Agency hereby further covenants that it will comply with the registration requirements of Section 149(a) of the Code so long as any portion of the Notes is Outstanding.

The Agency hereby further covenants that it will not take any action or permit any action to be taken that would cause the Notes to constitute a "private activity bond" under Section 141 of the Code.

The Agency covenants to comply with all provisions of its Tax Certificate delivered at closing of the Notes.

P. Private Person Use Limitation. The Agency shall comply with the provisions of this Section unless, in the written opinion of Note Counsel, such compliance is not required in order to maintain the exemption of the interest on the Notes from federal income taxation.

The Agency covenants that so long as any portion of the Notes is Outstanding, it will not permit:

(a) More than 10% of the Net Proceeds of the Notes to be used for any use considered as use by a nongovernmental person under Section 103 the Internal Revenue Code ("Private Person Use"); and

(b) More than 10% of the principal or interest payments on the Notes in a Note Year to be (under the terms of this Note Resolution or any underlying arrangement) directly or indirectly: (i) secured by any interest in property used or to be used for any Private Person Use or secured by payments in respect of property used or to be used for any Private Person Use, or (ii) derived from payments (whether or not made to the Agency) in respect of property, or borrowed money, used or to be used for any Private Person Use.

The Agency further covenants that, if:

(c) More than 5% of the Net Proceeds of the Notes is to be used for any Private Person Use; and

(d) More than 5% of the principal or interest payments on the Notes in a Note Year are (under the terms of this Note Resolution or any underlying arrangement) directly or indirectly: (i) secured by any interest in property used or to be used for any Private Person Use or secured by payments in respect of property used or to be used for any Private Person Use, or (ii) derived from payments (whether or not made to the Agency) in respect of property, or borrowed money, used or to be used for any Private Person Use;

then, (i) any Private Person Use of the Project described in subsection (c) hereof or Private Person Use payments described in subsection (d) hereof that is in excess of the 5% limitations described in such subsections (c) or (d) will be for a Private Person Use that is relating to the state or local governmental use or purpose of the Project, and (ii) any Private Person Use will not exceed the amount of Net Proceeds of the Notes used for the state or local governmental use portion of the Project to which the Private Person Use of such portion of the Project relates. The Agency further covenants that it will comply with the Tax Certificate of the Agency delivered at the closing of the Notes and any limitations on the use of the Project by other than state and local governmental users that are necessary, in the opinion of Note Counsel, to preserve the tax exemption of the interest on the Notes.

Q. Private Loan Limitation. The Agency shall comply with the provisions of this Section unless, in the written opinion of Note Counsel, such compliance is not required in order to maintain the exemption of the interest on the Notes from federal income taxation.

The Agency covenants that so long as any portion of the Notes is Outstanding, it will not permit Notes proceeds in excess of 5% of the Net Proceeds of the Notes to be used (directly or indirectly) to make loans (other than loans that enable a borrower to finance a governmental tax assessment of general application for a specific essential governmental function) to a Private Person.

R. Federal Guaranty Prohibition. The Agency shall comply with the provisions of this Section unless, in the written opinion of Note Counsel, such compliance is not required in order to maintain the exemption of the interest on the Notes from federal income taxation.

The Agency covenants that so long as any portion of the Notes is Outstanding, it will not take any action or permit or suffer any action to be taken if the result thereof would be to cause the Notes to be "federally guaranteed" within the meaning of Section 149(b) of the Code and any Regulations promulgated thereunder.

S. Opinions of Note Counsel. Whenever an opinion of note counsel is rendered in connection with any provision of this Note Resolution (including, but not limited to, an modification of Sections 6(P), (Q), (R) and (S) above), unless such opinion is given by Note Counsel, the opinion shall affirmatively state, in a manner acceptable to the Agency, that interest on the Notes is excluded from gross income for federal tax purposes and will remain so after the action in question. This Section shall apply in the same fashion with respect to the affirmative opinion of any such successor of counsel.

T. Obligations Under Note Purchase Agreement. The Agency shall comply with all its obligations under the Note Purchase Agreement

SECTION 7. TRANSFER OF OR EXCHANGE OF NOTES. Any Note shall be transferable by the Registered Owner thereof in person, or by his attorney duly authorized in writing, upon presentation and surrender of such Notes at the principal office of the Agency as Registrar for cancellation and issuance of new Notes registered in the name of the transferee, in exchange therefor. Provided, however, that the Registrar shall not be required to transfer the Notes within fifteen calendar days prior to a principal or interest payment.

Any Note shall be exchangeable for Notes of any authorized denomination or denominations, upon surrender and cancellation of said Note at the principal corporate trust office of the Registrar.

Whenever any Note or Notes shall be surrendered for transfer, the Registrar shall authenticate and deliver to the transferee, in exchange therefor, a new fully registered Notes of the same maturity and interest rate, and for the maximum principal amount of such Notes being surrendered.

The Registrar shall require the payment by the Registered Owner requesting such transfer or exchange of any tax, fee or governmental charge required to be paid with respect to such transfer or exchange. The costs imposed for such transfer or exchange shall be deemed to be a Project cost to be borne by the Agency. The Agency may also require the transferor and/or transferee of the Notes to execute any documents in connection with such transfer as may be reasonable required by the Agency.

