

## CERTIFICATE AS TO RESOLUTION

I, the undersigned, being the duly qualified and acting recording officer of the City of Billings, Montana (the "City"), hereby certify that the attached resolution is a true copy of a Resolution entitled: "RESOLUTION RELATING TO SPECIAL IMPROVEMENT DISTRICT NO. 1363; CREATING SPECIAL FUNDS AND ACCOUNTS FOR THE ADMINISTRATION OF CERTAIN MONEY DERIVED THEREFROM AND DEFINING THE TERMS AND THE MANNER OF PAYMENT OF A \$818,000 SPECIAL IMPROVEMENT DISTRICT NO. 1363 BOND (DNRC DRINKING WATER REVOLVING LOAN PROGRAM), SERIES 2003B" (the "Resolution"), on file in the original records of the City in my legal custody; that the Resolution was duly adopted by the City Council of the City at a meeting on March 10, 2003, and that the meeting was duly held by the City Council and was attended throughout by a quorum, pursuant to call and notice of such meeting given as required by law; and that the Resolution has not as of the date hereof been amended or repealed.

I further certify that, upon vote being taken on the Resolution at said meeting, the following Council Members voted in favor thereof:

\_\_\_\_\_

\_\_\_\_\_

: voted against the same:

· abstained from voting thereon:

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or were absent:

\_\_\_\_\_.

WITNESS my hand officially this 10th day of March, 2003.

## City Clerk

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**BOND RESOLUTION**

Relating to

**\$818,000 SPECIAL IMPROVEMENT DISTRICT NO. 1363 BOND  
(DNRC DRINKING WATER REVOLVING LOAN PROGRAM), SERIES 2003B**

**CITY OF BILLINGS, MONTANA**

Adopted: March 10, 2003

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RESOLUTION NO. **03-17966**

RESOLUTION RELATING TO SPECIAL IMPROVEMENT DISTRICT NO. 1363; CREATING SPECIAL FUNDS AND ACCOUNTS FOR THE ADMINISTRATION OF CERTAIN MONEY DERIVED THEREFROM AND DEFINING THE TERMS AND THE MANNER OF PAYMENT OF A \$818,000 SPECIAL IMPROVEMENT DISTRICT NO. 1363 BOND (DNRC DRINKING WATER REVOLVING LOAN PROGRAM), SERIES 2003B

WHEREAS, pursuant to the Drinking Water State Revolving Fund Act, Montana Code Annotated, Title 75, Chapter 6, Part 2, as amended (the "Act"), the State of Montana (the "State") has established a revolving loan program (the "Program") to be administered by the Department of Natural Resources and Conservation of the State of Montana, an agency of the State (the "DNRC"), and by the Department of Environmental Quality of the State of Montana, an agency of the State (the "DEQ"), and has provided that a drinking water state revolving fund (the "Revolving Fund") be created within the state treasury and all federal, state and other funds for use in the Program be deposited into the Revolving Fund, including, but not limited to, all federal grants for capitalization of a state drinking water revolving fund under the federal Safe Drinking Water Act (the "Safe Drinking Water Act"), all repayments of assistance awarded from the Revolving Fund, interest on investments made on money in the Revolving Fund and payments of principal of and interest on loans made from the Revolving Fund; and

WHEREAS, the Act provides that funds from the Program shall be disbursed and administered for the purposes set forth in the Safe Drinking Water Act and according to rules adopted by the DEQ and the DNRC; and

WHEREAS, the City of Billings, Montana (the "Borrower") has applied to the DNRC for a loan (the "Loan") from the Revolving Fund to enable the Borrower to finance, refinance or reimburse itself for the costs of the Project (as hereinafter defined) which will carry out the purposes of the Safe Drinking Water Act; and

WHEREAS, the Borrower is authorized under applicable laws, ordinances and regulations to adopt this Resolution and to issue the Bond (as hereinafter defined) to evidence the Loan for the purposes set forth herein; and

WHEREAS, the DNRC will fund the Loan in part, directly or indirectly, with proceeds of State's General Obligation Bonds (Drinking Water State Revolving Fund Program) (the "State Bonds") and in part, directly or indirectly, with funds provided by the United States Environmental Protection Agency.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE BORROWER, AS FOLLOWS:

## ARTICLE I

### DEFINITIONS, RULES OF CONSTRUCTION AND APPENDICES

Section 1.1. Definitions. In this Resolution, unless a different meaning clearly appears from the context:

“Accountant” or “Accountants” means an independent certified public accountant or a firm of independent certified public accountants satisfactory to the DNRC.

“Act” means Montana Code Annotated, Title 75, Part 6, Chapter 2, as amended from time to time.

“Administrative Expense Surcharge” means a surcharge on the Loan charged by the DNRC to the Borrower equal to seventy-five hundredths of one percent (0.75%) per annum on the outstanding principal amount of the Loan, payable by the Borrower on the same dates that payments of interest on the Loan are due.

“Administrative Fee” means a fee equal to \$4,703.50, which is to be retained by the DNRC from the proceeds of the Loan at Closing.

“Authorized DNRC Officer” means the Director of the DNRC or his or her designee.

“Bond” means the \$818,000 Special Improvement District No. 1363 Bond (DNRC Drinking Water Revolving Loan Program), Series 2003B issued to the DNRC to evidence the Loan.

“Bond Counsel” means any Counsel nationally recognized as experienced in matters relating to the issuance by states or political subdivisions of tax-exempt obligations selected by the Borrower and acceptable to the DNRC.

“Borrower” means the City of Billings, Montana, or its successors.

“Business Day” means any day which is not a Saturday or Sunday and is not a day on which banks in Montana are authorized or required by law to close.

“Closing” means the date of delivery of the Bond to the DNRC.

“Code” means the Internal Revenue Code of 1986, as amended.

“Collateral Documents” means any security agreement, guaranty or other document or agreement delivered to the DNRC securing the obligations of the Borrower under this Resolution and the Bond. If no Collateral Documents secure such

obligations, any reference to Collateral Documents in this Resolution shall be without effect.

“Committed Amount” means \$818,000, the amount of the Loan committed to be lent by the DNRC to the Borrower pursuant to Section 4.1.

“Construction Account” means the account within the Fund established pursuant to Sections 6.1 and 6.2.

“Consultant” means a nationally recognized consultant or firm of consultants, or an independent engineer or firm of independent engineers, or an Accountant, which in any case is qualified and has skill and experience in the preparation of financial feasibility studies or projections for facilities similar to the Project, selected by the Borrower and satisfactory to the DNRC.

“Counsel” means an attorney duly admitted to practice law before the highest court of any state and satisfactory to the DNRC.

“DEQ” means the Department of Environmental Quality of the State of Montana, an agency of the State, or any successor to its powers, duties and obligations under the Act or the EPA Agreements.

“DNRC” means the Department of Natural Resources and Conservation of the State of Montana, an agency of the State, or any successor to its powers, duties and obligations under the Act.

“District” means Special Improvement District No. 1363 of the Borrower.

“Enabling Act” means Montana Code Annotated, Title 7, Chapter 7, Part 44 and Chapter 12, Parts 41 and 42, as amended, which authorizes the Borrower to own, undertake and operate the Project and to issue the Bond to finance the costs of the Project.

“EPA” means the Environmental Protection Agency, an agency of the United States of America, and any successor to its functions under the Safe Drinking Water Act.

“EPA Agreements” means all capitalization grant agreements and other written agreements between the DEQ, DNRC and the EPA concerning the Program.

“EPA Capitalization Grant” means a grant of funds to the State by the EPA under Section 1452 of the Safe Drinking Water Act.

“Fund” means the Special Improvement District No. 1363 Fund established pursuant to Section 6.1.

“Governmental Unit” means governmental unit as such term is used in Section 145(a) of the Code.

“Indenture” means the Indenture of Trust, dated as of May 1, 1998, between the Board of Examiners of the State and the Trustee, as such may be supplemented or amended from time to time in accordance with the provisions thereof, pursuant to which, among other things, the State Bonds are to be or have been issued.

“Interest Account” means the account within the Fund established pursuant to Sections 6.1 and 6.3.

“Loan” means the Loan made to the Borrower by the DNRC pursuant to the Program in the maximum amount of the Committed Amount to provide funds to pay all or a portion of the costs of the Project, to pay the Origination Fee and the Administrative Fee payable under the Program and to fund a deposit to the Revolving Fund.

“Loan Loss Reserve Surcharge” means a fee equal to one percent (1.00%) per annum on the outstanding principal amount of the Loan, payable on the same dates that payments of interest on the Loan are due.

“Opinion of Counsel” means a written opinion of Counsel.

“Origination Fee” means \$8,180, which represents the Borrower’s pro rata share of the costs of issuance of the State Bonds.

“Person” means any Private Person or Public Entity.

“Principal Account” means the account within the Fund established pursuant to Sections 6.1 and 6.3.

“Private Person” means an individual, corporation, partnership, association, joint venture, joint stock company or unincorporated organization, except a Public Entity.

“Program” means the Drinking Water State Revolving Fund Program established by the Act.

“Project” means the facilities, improvements and activities financed, refinanced or the cost of which is being reimbursed to the Borrower with the proceeds of the Loan, described in Exhibit A hereto.

“Public Entity” means a municipality, town, county, school district, political or administrative subdivision of State government, irrigation district, drainage district or other public body established by State law.

“Regulations” means the Treasury Regulations, whether final, temporary or proposed, promulgated under the Code or otherwise applicable to the Bond.

“Reserved Amounts” means any undisbursed Committed Amount which will or may be required to pay any remaining costs of the Project upon completion thereof as provided in Section 3.4(a).

“Revolving Fund” means the Special Improvement District Revolving Fund of the Borrower established pursuant to Ordinance No. 1096 and Sections 7-12-4221 to 7-12-4229 of the Enabling Act.

“Safe Drinking Water Act” means Title XIV of the Public Health Service Act, commonly known as the Safe Drinking Water Act, 42 U.S.C. §§ 300f et seq., as amended, and all regulations, rules and interpretations issued by the EPA thereunder.

“State” means the State of Montana.

“State Bonds” means the State’s General Obligation Bonds (Drinking Water State Revolving Fund Program), issued pursuant to the Indenture.

“Trustee” means U.S. Bank National Association (formerly First Trust Company of Montana National Association), in Seattle, Washington, or any successor trustee under the Indenture.

Section 1.2. Other Rules of Construction. For all purposes of this Resolution, except where the context clearly indicates otherwise:

- (a) All accounting terms not otherwise defined herein have the meanings assigned to them in accordance with generally accepted government accounting standards.
- (b) Terms in the singular include the plural and vice versa.
- (c) All references to time shall refer to Helena, Montana time, unless otherwise provided herein.
- (d) All references to mail shall refer to first-class mail postage prepaid.
- (e) Words of the masculine gender shall be deemed and construed to include correlative words of the feminine and neuter genders.
- (f) “Or” is not exclusive, but is intended to permit or encompass one, more or all of the alternatives conjoined.

Section 1.3. Appendices. Attached to this Resolution and hereby made a part hereof are the following Appendices:

Appendix A: a description of the Project;

Appendix B: the form of the Bond; and

Appendix C: additional agreements and representations of the Borrower.

## ARTICLE II

## REPRESENTATIONS AND COVENANTS

Section 2.1. Representations. The Borrower represents as follows:

(a) Organization and Authority. The Borrower:

(i) is duly organized and validly existing as a municipality and political subdivision of the State;

(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 adopt this Resolution, to create the District and to enter into the Collateral Documents and to issue the Bond and to carry out and consummate all transactions contemplated by this Resolution, to create the District, the Bond and the Collateral Documents;

(iii) is a Governmental Unit and a Public Entity; and

(iv) has taken all proper action to authorize the execution, delivery and performance of its obligations under this Resolution, the Bond and the Collateral Documents and the issuance of the Bond in the maximum amount of the Committed Amount.

(b) Litigation. There is no litigation or proceeding pending, or to the knowledge of the Borrower threatened, against or affecting the Borrower in any court or before or by any governmental authority or arbitration board or tribunal questioning the validity or regularity of the creation of the District, the contracts for construction of the Project or the undertaking and agreement of the Borrower to levy special assessments therefor and to make good any deficiency in the collection thereof through the levy of taxes for and the making of advances from the Revolving Fund, or the right and power of the Borrower to issue the Bond or in any manner questioning the existence of any condition precedent to the exercise of the Borrower's powers in these matters, or that, if adversely determined, would materially and adversely affect the existence, corporate or otherwise, of the Borrower, or the ability of the Borrower to make all payments and otherwise perform its obligations under this Resolution, the Bond and the Collateral Documents, or the financial condition of the Borrower or the Revolving Fund, or the transactions contemplated by this Resolution, the Bond and the Collateral Documents or the validity and enforceability of this Resolution, the Bond and the Collateral Documents. If any such litigation should be initiated or threatened, the Borrower will forthwith notify in writing the DNRC, and will furnish the DNRC a copy of all documents, including pleadings, in connection with such litigation.

(c) Borrowing Legal and Authorized. The adoption of this Resolution, the execution and delivery of the Bond and the Collateral Documents and the consummation of the transactions provided for in this Resolution, the Bond and the Collateral Documents and compliance by the Borrower with the provisions of this Resolution, the Bond and the Collateral Documents:

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

(ii) do not and 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 encumbrance upon any property or assets of the Borrower pursuant to any resolution, indenture, loan agreement or other agreement or instrument (other than this Resolution and any Collateral Documents) to which the Borrower is a party or by which the Borrower or its property may be bound, nor will such action result in any violation of the provisions of any charter or similar document of the Borrower or any laws, ordinances, governmental rules or regulations or court or other governmental orders to which the Borrower, its properties or operations are subject.

(d) No Defaults. No event has occurred and no condition exists that, upon execution and delivery of the Bond and the Collateral Documents, would constitute a default under this Resolution or the Collateral Documents. The Borrower is not in violation of any term of any agreement, bond resolution, trust indenture, charter or other instrument to which it is a party or by which it or its property may be bound which violation would materially and adversely affect the transactions contemplated hereby or the compliance by the Borrower with the terms hereof or of the Bond and the Collateral Documents.

(e) Governmental Consent. The Borrower has obtained or made all permits, findings and approvals required to the date of adoption of this Resolution by any governmental body or officer for the making and performance by the Borrower of its obligations under this Resolution, the Bond and the Collateral Documents (including any necessary wastewater rate increase) or for the Project, the financing or refinancing thereof or the reimbursement of the Borrower for the costs thereof. No consent, approval or authorization of, or filing, registration or qualification with, any governmental authority (other than those, if any, already obtained) is required on the part of the Borrower as a condition to adopting this Resolution, issuing the Bond or entering into the Collateral Documents and the performance of the Borrower's obligations hereunder and thereunder.

(f) Binding Obligation. This Resolution, the Bond and any Collateral Document to which the Borrower is a party are the valid and binding special obligations and agreements of the Borrower, enforceable against the Borrower in accordance with their terms except to the extent that the enforceability thereof may be limited by laws relating to bankruptcy, moratorium, reorganization, insolvency or similar laws affecting creditors' rights and general principles of equity.

(g) The Project. The Project consists and will consist of the facilities, improvements and activities described in Appendix A, as such Appendix A may be amended from time to time in accordance with the provision of Article III of this Resolution.

(h) The System. The System is a “community water system” within the meaning of the Act and the Safe Drinking Water Act in that it is a public water system, comprising collection, treatment, storage and distribution facilities for the provision to the public of water for human consumption, that serves not less than 15 service connections used by year-round residents of the area served by the System or regularly serves not less than 25 year-round residents

(i) Full Disclosure. There is no fact that the Borrower has not previously and specifically disclosed in writing to the DNRC that materially and adversely affects or (so far as the Borrower can now reasonably foresee) will affect, (except for pending or proposed legislation or regulations that are a matter of general public information), the properties, operations and finances of the Project, the District or the Revolving Fund, the Borrower's status as a Public Entity and Governmental Unit, its ability to own and operate the Project in the manner it is currently operated or the Borrower's ability to perform its obligations under this Resolution, the Bond and the Collateral Documents and to pledge any revenues or other property pledged to the payment of the Bond.

(i) Compliance With Law. The Borrower:

(1) is in compliance with all laws, ordinances, governmental rules and regulations and court or other governmental orders, judgments and decrees to which it is subject and which are material to the properties, operations and finances of the Project or the District or the status of the Borrower as a Public Entity and Governmental Unit; and

(2) has obtained all licenses, permits, franchises or other governmental authorizations necessary to the ownership of the Project and the operation thereof and agrees to obtain all such licenses, permits, franchises or other governmental authorizations as may be required in the future for the Project and the operation thereof, which failure to obtain might materially and adversely affect the ability of the Borrower to conduct the operation of the Project as presently conducted or the condition (financial or otherwise) of the Project, the District or the Borrower's ability to perform its obligations under this Resolution, the Bond and the Collateral Documents.

## Section 2.2. Covenants.

(a) Right of Inspection and Notice of Change of Location. The DEQ, the DNRC and the EPA and their designated agents shall have the right at all reasonable times during normal business hours and upon reasonable notice to enter into and upon the property of the Borrower for the purpose of inspecting the Project or any or all books and records of the Borrower relating to the Project.

(b) Further Assurance. The Borrower shall execute and deliver to the DNRC all such documents and instruments and do all such other acts and things as may be necessary or required by the DNRC to enable the DNRC to exercise and enforce its rights under this Resolution, the Bond and the Collateral Documents and to realize

thereon, and record and file and re-record and refile all such documents and instruments, at such time or times, in such manner and at such place or places, all as may be necessary or required by the DNRC to validate, preserve and protect the position of the DNRC under this Resolution, the Bond and the Collateral Documents.

(c) Additional Agreements. The Borrower covenants to comply with all representations, covenants, conditions and agreements, if any, set forth in Appendix C hereto.

(d) Financial Information. The Borrower will cause proper and adequate books of record and account to be kept showing complete and correct entries of all receipts, disbursements and other transactions relating to the Project, the Fund and the levy and collection of special assessments in the District, in such reasonable detail as may be determined by the Borrower in accordance with generally accepted governmental accounting practice and principles. Such books shall be maintained on the basis of the same fiscal year as that utilized by the Borrower. The Borrower shall also have prepared and supplied to the DNRC, within 180 days after the close of each fiscal year, an audit report prepared by an independent certified public accountant or an agency of the state in accordance with generally accepted governmental accounting principles and practice with respect to the financial statements and records of the Borrower.

(e) Project Accounts. The Borrower shall maintain Project accounts in accordance with generally accepted government accounting standards.

(f) Records. After reasonable notice from the EPA or the DNRC, the Borrower shall make available to the EPA or the DNRC such records as the EPA or the DNRC reasonably requires to review and determine compliance with the Safe Drinking Water Act, as provided in Section 75-6-224(1)(d) of the Act.

(g) Compliance with Safe Drinking Water Act. The Borrower has complied and shall comply with all conditions and requirements of the Safe Drinking Water Act pertaining to the Loan and the Project, and shall maintain sufficient financial, managerial and technical capability to continue to effect such compliance.

(h) Program Covenant. The Borrower agrees that neither it nor any "related person" to the Borrower (within the meaning of Section 147(a)(2) of the Code) shall, whether pursuant to a formal or informal arrangement, acquire bonds issued by the State under the Indenture in an amount related to the amount of the Bond.

(i) Compliance with DEQ Requirements. The Borrower shall comply with plan, specification and other requirements for public water systems established by the DEQ, as required by Section 75-6-224(1)(h).

## ARTICLE III

### USE OF PROCEEDS; THE PROJECT

Section 3.1. Use of Proceeds. The Borrower shall apply the proceeds of the Loan from the DNRC solely as follows:

(a) The Borrower shall apply the proceeds of the Loan solely to the financing, refinancing or reimbursement of the costs of the Project as set forth in Appendix A hereto and this Section 3.1. The Loan will be disbursed in accordance with Article IV hereof and Article VII of the Indenture. If the Project has not been completed prior to Closing, the Borrower shall, as quickly as reasonably possible, complete the Project and expend proceeds of the Bond to pay the costs of completing the Project.

(b) No portion of the proceeds of the Loan shall be used to reimburse the Borrower for costs paid prior to the date of adoption of this Resolution of a Project the construction or acquisition of which occurred or began earlier than June 1, 1993. In addition, if any proceeds of the Loan are to be used to reimburse the Borrower for Project costs paid prior to the date of adoption of this Resolution, the Borrower has complied in respect of such expenditures with the requirements of Section 1.150-2 of the Treasury Department, Income Tax Regulations, as amended or any successor regulation thereto.

(c) Any Debt to be refinanced with proceeds of the Loan was incurred after June 1, 1993 for a Project the construction or acquisition of which began after June 1, 1993. No proceeds of the Loan shall be used for the purpose of refinancing an obligation the interest on which is exempt from federal income tax or excludable from gross income for purposes of federal income taxation unless the DNRC has received an Opinion of Bond Counsel, satisfactory to it, to the effect that such refinancing will not adversely affect the exclusion of interest on the State Bonds from gross income for purposes of federal income taxation.

Section 3.2. The Project. Set forth in Appendix A to this Resolution is a description of the Project, which describes the property which has been or is to be acquired, installed, constructed or improved and the other activities, if any to be funded.

Section 3.3. Project Representations and Covenants. The Borrower hereby represents to and covenants with the DNRC that:

(a) all construction of the Project has complied with all federal and state standards, including, without limitation, EPA regulations and standards; and

(b) the Project is a project of the type permitted to be financed under the Enabling Act, the Act and the Program and Section 1452 of the Safe Drinking Water Act.

## ARTICLE IV

### THE LOAN

Section 4.1. The Loan; Disbursement of Loan. The DNRC has agreed to lend to the Borrower, from time to time as the requirements of this Section 4.1 are met, the Committed Amount (\$818,000) for the purposes of financing, refinancing or reimbursing the Borrower for the costs of the Project. The Loan shall be disbursed as provided in this Section 4.1. The DNRC intends to disburse the Loan through the Trustee.

(a) In consideration of the issuance of the Bond by the Borrower, the DNRC shall make, or cause the Trustee to make, a disbursement of the Loan, in whole but not in part, upon receipt of the following documents:

- (1) an Opinion of Bond Counsel as to the validity and enforceability of the Bond and the security therefor and stating in effect that interest on the Bond is not includable in gross income for purposes of federal income taxation, in form and substance satisfactory to the DNRC;
- (2) the Bond, fully executed and authenticated;
- (3) a certified copy of this Resolution;
- (4) any other security instruments or documents required by the DNRC or DEQ as a condition to their approval of the Loan;
- (5) if all or part of a Loan is being made to refinance a Project or reimburse the Borrower for the costs of a Project paid prior to the Closing, evidence, satisfactory to the DNRC and the Bond Counsel referred to in (1) above, (A) that the acquisition or construction of the Project was begun no earlier than June 1, 1993 or the debt was incurred no earlier than June 1, 1993, (B) of the Borrower's title to the Project, (C) of the costs of such Project and that such costs have been paid by the Borrower and (D) if any proceeds of the Loan are to be used to reimburse the Borrower for Project costs paid prior to the date of adoption of this Resolution, the Borrower has complied in respect of such expenditures with the requirements of Section 1.150-2 of the Treasury Department, Income Tax Regulations, as amended or any successor regulation thereto;
- (6) the items required by the Indenture for the disbursement of the Loan at Closing;
- (7) payment or provision for payment of the Administrative Fee and the Origination Fee; and
- (8) such other certificates, documents and other information as the DNRC, the DEQ or the Bond Counsel giving the opinion referred to in subparagraph (1) may require (including any necessary arbitrage rebate instructions).

(b) In order to obtain disbursement of the Loan, the Borrower shall submit to the DNRC and the Trustee a signed request for disbursement on the form prescribed by the Trustee, with all attachments required by such form. All Project costs to be financed from proceeds of the Loan shall have been legally incurred by the Borrower and shall have been paid by the Borrower.

(c) On the date of Closing, the Trustee is authorized to make disbursement of the Loan in the Committed Amount. The DNRC will retain, and not physically advance to the Borrower, an amount equal to the sum of the Administration Fee, and the Borrower acknowledges and agrees that such retainage constitutes a disbursement of proceeds of the Loan in an amount equal to the amount retained by the DNRC.

(d) Upon making the disbursement, the Trustee shall note the disbursement on Schedule A to the Bond.

(e) The Borrower agrees that it will deposit in the Revolving Fund upon receipt any proceeds of the Loan borrowed for the purpose of depositing five percent of the Loan in the Revolving Fund, either on the Closing Date of the Loan or upon any disbursement date. The Borrower further acknowledges and agrees that any portions of the Loan representing capitalized interest shall be advanced only on Payment Dates and shall be transferred by the Trustee on the Payment Date directly to the Debt Service Account. The amount of any such transfer shall be a credit against the interest payments due on the Bond and interest thereon shall accrue only from the date of transfer.

Section 4.2. Commencement of Loan Term. The Borrower's obligations under this Resolution and the Collateral Documents shall commence on the date hereof unless otherwise provided in this Resolution. However, the obligation to make payments under Article V hereof shall commence only upon the disbursement by the Trustee of Loan proceeds.

Section 4.3. Termination of Loan Term. The Borrower's obligations under this Resolution and the Collateral Documents shall terminate upon payment in full of all amounts due under the Bond and this Resolution; provided, however, that the covenants and obligations provided in Article VIII and Section 11.4 shall survive the repayment of the Bond.

Section 4.4. Loan Closing Submissions. On or prior to the Closing, the Borrower will have delivered to the DNRC and the Trustee the closing submissions required by Section 7.05 of the Indenture.

## ARTICLE V

### REPAYMENT OF LOAN

Section 5.1. Repayment of Loan. The Borrower shall repay the principal amount of the Loan, plus interest on the outstanding principal amount thereof at the rate of two and twenty-five hundredths percent (2.25%) per annum, in semiannual Loan Repayments. In addition, the Borrower shall pay an Administrative Expense Surcharge on the outstanding principal amount of the Loan at the rate of seventy-five hundredths of one percent (0.75%) per annum and a Loan Loss Reserve Surcharge equal to one percent (1.00%) per annum on the outstanding principal amount of the Loan. For purposes of this Resolution and the Program, the term "interest" on the Loan shall include the Administrative Expense Surcharge and the Loan Loss Reserve Surcharge. The Borrower shall pay all Loan Repayments and Administrative Expense Surcharges and Loan Loss Reserve Surcharge in lawful money of the United States of America to the DNRC. Interest and Administrative Expense Surcharge and Loan Loss Reserve Surcharge shall be calculated on the basis of a year of 360 days comprising 12 months of 30 days each.

The Loan Repayments required by this Section 5.1, and the Administrative Expense Surcharges and Loan Loss Reserve Surcharge, shall be due on each January 1 and July 1 (the "Payment Dates") as follows:

- (1) interest and Administrative Expense Surcharge and Loan Loss Reserve Surcharge on the outstanding principal balance of the Loan shall be payable on each Payment Date, beginning on January 1, 2004; and
- (2) the principal of the Loan shall be repayable on each Payment Date, beginning on January 1, 2004, and concluding on July 1, 2023, and the amount of each principal payment shall be equal to the amounts set forth in the following table:

<u>Payment Date</u>	<u>Amount</u>	<u>Payment Date</u>
1/1/04	\$14,000	1/1/14
7/1/04	14,000	7/1/14
1/1/05	14,000	1/1/15
7/1/05	14,000	7/1/15
1/1/06	15,000	1/1/16
7/1/06	15,000	7/1/16
1/1/07	15,000	1/1/17
7/1/07	16,000	7/1/17
1/1/08	16,000	1/1/18
7/1/08	16,000	7/1/18
1/1/09	17,000	1/1/19
7/1/09	17,000	7/1/19
1/1/10	17,000	1/1/20
7/1/10	18,000	7/1/20
1/1/11	18,000	1/1/21
7/1/11	18,000	7/1/21
1/1/12	19,000	1/1/22

7/1/12	19,000	7/1/22	27,000
1/1/13	19,000	1/1/23	28,000
7/1/13	20,000	7/1/23	28,000

The payments of principal of and interest and Administrative Expense Surcharge and Loan Loss Reserve Surcharge on the Loan shall be due on the dates and in the amounts indicated above shown. The portion of each such Loan Repayment consisting of principal and the portion consisting of interest and the amount of each Administrative Expense Surcharge and the amount of each and Loan Loss Reserve Surcharge shall be set forth in Schedule B to the Bond. The full Committed Amount of the Loan will be disbursed to the Borrower in one installment pursuant to Section 4.1, the Trustee shall enter or cause to be entered the amount advanced on Schedule A to the Bond under "Advances" and the total amount advanced under Section 4.1, including such disbursement, under "Total Amount Advanced."

Past-due payments of principal and interest and Administrative Expense Surcharge and Loan Loss Reserve Surcharge shall bear interest at the rate of ten percent (10.00%) per annum, until paid.

Any payment of principal, interest or Administrative Expense Surcharge and Loan Loss Reserve Surcharge under this Section 5.1 shall also be credited against the same payment obligation under the Bond.

**Section 5.2. Additional Payments.** The Borrower shall also pay, within 30 days after receipt of a bill therefor, from any legally available funds therefor, including proceeds of the Loan, if the Borrower so chooses, all reasonable expenses of the DNRC and the Trustee in connection with the Loan, the Collateral Documents and the Bond, including, but not limited to:

- (1) the cost of reproducing this Resolution, the Collateral Documents and the Bond;
- (2) the fees and disbursements of Bond Counsel and other Counsel utilized by the DNRC and the Trustee in connection with the Loan, this Resolution, the Collateral Documents and the Bond and the enforcement thereof; and
- (3) all taxes and other governmental charges in connection with the execution and delivery of the Collateral Documents or the Bond, whether or not the Bond is then outstanding, including all recording and filing fees and stamp taxes relating to the Collateral Documents and the pledge of the State's right, title and interest in and to the Bond, the Collateral Documents and this Resolution under the Board Resolution (and with the exceptions noted therein) and all expenses, including attorneys' fees, relating to any amendments, waivers, consents or collection or enforcement proceedings pursuant to the provisions hereof or thereof.

**Section 5.3. Prepayments.** The Borrower may, but only from the prepayment of special assessments levied in the District to secure the Bond, as provided in Montana Code Annotated, Section 7-12-4206(1) and upon 10 days' prior written notice to the DNRC and the Trustee, prepay the Bond or principal installments thereof without penalty on any Payment Date; provided that such prepayment must be accompanied by payment of accrued interest and Administrative Expense Surcharge and Loan Loss Reserve Surcharge to the date of prepayment on the amount of principal prepaid. In such event, the Treasurer shall call for redemption on the Payment Date the Bond or principal installments thereof, in the order of their registration in an amount which, together with the interest the Administrative Expense Surcharge and Loan Loss Reserve Surcharge accrued thereon to the interest payment date, will equal the amount of the Fund on that date. Except as provided in the foregoing sentences of this Section 5.3 or as otherwise required by law, the Borrower may not prepay all or any part of the outstanding principal amount of the Bond unless (i) it obtains the prior written consent of the DNRC thereto, and (ii) no Loan Repayment or Administrative Expense Surcharge or Loan Loss Reserve Surcharge is then delinquent. Any prepayment permitted by the DNRC must be accompanied by payment of accrued interest and Administrative Expense Surcharge and Loan Loss Reserve Surcharge to the date of prepayment on the amount of principal prepaid. If the Bond is prepaid in part, such prepayments shall be applied to principal installments thereof in order of the numbers of such principal installments.

**Section 5.4. Obligations of Borrower Unconditional.** The obligations of the Borrower to make the payments required by this Resolution and the Bond and to perform its other agreements contained in this Resolution, the Bond and Collateral Documents shall be absolute and unconditional, except as otherwise provided herein or in such documents. The Borrower (a) shall not suspend or discontinue any payments provided for in this Resolution and the Bond, (b) shall perform all its other agreements in this Resolution, the Bond and the Collateral Documents and (c) shall not terminate this Resolution, the Bond or the Collateral Documents for any cause, including any acts or circumstances that may constitute failure of consideration, destruction of or damage to the Project, commercial frustration of purpose, any dispute with the DNRC or the EPA, any change in the laws of the United States or of the State or any political subdivision of either or any failure of the DNRC to perform any of its agreements, whether express or implied, or any duty, liability or obligation arising from or connected with this Resolution.

**Section 5.5. Limited Liability.** All payments of principal of and interest on the Loan and other payment obligations of the Borrower hereunder and under the Bond shall be special, limited obligations of the Borrower payable solely out of the Fund and shall not be payable out of any other revenues or assets of the Borrower, except the Revolving Fund. The obligations of the Borrower under this Resolution and the Bond shall never constitute an indebtedness of the Borrower within the meaning of any state constitutional provision or statutory limitation and shall never constitute or give rise to a pecuniary liability of the Borrower or a charge against its general credit or taxing power.

Section 5.6. Covenants Relating to the Tax-Exempt Status of the State Bonds.

(a) The Borrower covenants and agrees that it will not use or permit to be used any of the proceeds of the Bond or any other funds of the Borrower, directly or indirectly, in a manner that would cause, or take any other action that would cause, any State Bond to be an “arbitrage bond” within the meaning of Section 148 of the Code or would otherwise cause the interest on the State Bonds to be included in gross income for purposes of federal income taxation. In addition, the Borrower agrees that it will not enter into, or allow any “related person” (as defined in Section 147(a)(2) of the Code) to enter into, any arrangement, formal or informal, for the purchase of the State Bonds or any other obligations of the DNRC in an amount related to the amount of the Loan or the portion of the Loan derived directly or indirectly from proceeds of the State Bonds or that would otherwise cause any State Bond to be an “arbitrage bond” within the meaning of Section 148 of the Code.

(b) The Borrower shall not use or permit the use of the Project directly or indirectly in any trade or business carried on by any Person who is not a Governmental Unit. For the purpose of this subparagraph, use as a member of the general public shall not be taken into account and any activity carried on by a Person other than a natural person shall be treated as a trade or business.

(c) Any portion of the Project being refinanced or the cost of which is being reimbursed was acquired by and is now and shall, during the term of the Loan, be owned by the Borrower and not by any other Person. Any portion of the Project being financed shall be acquired by and shall, during the term of the Loan, be owned by the Borrower and not by any other Person. Notwithstanding the previous two sentences, the Borrower may transfer the Project or a portion thereof to another Governmental Unit which is also a Public Entity if such transfer is approved in writing by an Authorized DNRC Officer and if such organization agrees with the DNRC to comply with Sections 2.2(f) and 2.2(g) and if the DNRC receive an Opinion of Bond Counsel that such transfer will not violate the Act or the Safe Drinking Water Act or adversely affect the exclusion of interest on the Bonds from gross income for purposes of federal income taxation. In addition, except as otherwise provided herein or in any Collateral Documents, the Borrower may sell or otherwise dispose of any portion of the Project which has become obsolete or outmoded or is being replaced or for other reasons is not needed by the Borrower or beneficial to the general public or necessary to carry out the purposes of the Safe Drinking Water Act.

(d) At the Closing of the Loan the DNRC will, if necessary to obtain the Opinion of Bond Counsel described in Section 7.05(a) of the Indenture, deliver to the Borrower instructions concerning compliance by the Borrower with the arbitrage rebate requirements of Section 148 of the Code (the “Arbitrage Rebate Instructions”). The Borrower shall comply with the Arbitrage Rebate Instructions, if any, delivered to it by the DNRC at Closing, as such Instructions may be amended or replaced by the DNRC from time to time. The Arbitrage Rebate Instructions may be amended or replaced by new Arbitrage Rebate Instructions delivered by the DNRC and accompanied by an

Opinion of Bond Counsel to the effect that the use of said amended or new Arbitrage Rebate Instructions will not adversely affect the excludability of interest on the State Bonds or any Additional State Bonds (except Additional State Bonds the interest on which the State did not intend to be excluded from gross income for federal income tax purposes) from gross income of the recipients thereof for federal income tax purposes.

(e) The Borrower agrees that during the Loan Term it will not contract with or permit any Private Person to manage or service the Project or any portion thereof except according to a written management contract which complies with the provisions of Revenue Procedure No. 93-19, promulgated by the Internal Revenue Service, or such applicable provision of the Code or the Treasury Regulations to the end that interest on the Bond will not become includable in gross income for purposes of federal income taxation. The Borrower may depart from any of its agreements contained in this Subsection (e) if it delivers to the DNRC, at the Borrower's expense, an Opinion of Bond Counsel that to do so would not adversely affect the exclusion of interest on the State Bonds from gross income for purposes of federal income taxation.

(f) The Borrower may not lease the Project or any portion thereof to any Person other than a Nonexempt Person which agrees in writing with the Borrower and the State not to cause any Default to occur under this Resolution, provided the Borrower may lease all or any portion of the Project to a Nonexempt Person pursuant to a lease which in the Opinion of Bond Counsel delivered to the DNRC will not cause the interest on the State Bonds to be included in gross income for purposes of federal income taxation.

(g) The Borrower shall not change the use or nature of the Project if (i) such change will violate the Safe Drinking Water Act, or (ii) so long as the State Bonds are outstanding unless, in the Opinion of Bond Counsel delivered to the DNRC, such change will not result in the inclusion in gross income of interest on the State Bonds for federal income tax purposes.

## ARTICLE VI

### FUND; REVOLVING FUND; ASSESSMENTS

Section 6.1. Fund. There is hereby created and established the Fund designated as the "Special Improvement District No. 1363 Fund," which shall be maintained on the books and records of the Borrower separate and apart from all other funds of the Borrower. Within the Fund there shall be maintained three separate accounts, designated as the "Construction Account," "Principal Account" and "Interest Account," respectively.

Section 6.2. Construction Account. There shall be credited to the Construction Account the proceeds of the sale of the Bond. Any earnings on investment of money in the Construction Account shall be retained therein. All costs and expenses of constructing the Project shall be paid from time to time as incurred and

allowed from the Construction Account in accordance with the provisions of this Resolution, and money in the Construction Account shall be used for no other purpose; provided that upon completion of the Project and after all claims and expenses with respect to the Project have been fully paid and satisfied, any money remaining in the Construction Account shall be transferred to the Principal Account and used to redeem the Bond as provided in Section 6.3.

**Section 6.3. Principal Account and Interest Account.** Money in the Principal Account and the Interest Account shall be used only for payment of the principal of and interest on the Bond as such payments become due or to redeem the Bond.

Upon collection of the installment of principal and interest due on November 30 and May 31 of each fiscal year on the special assessments to be levied with respect to the Project, the Director of Administrative Services shall credit to the Interest Account so much of said special assessments as is collected as interest payment and the balance thereof to the Principal Account. Any installment of any special assessment paid prior to its due date with interest accrued thereon to the next succeeding interest payment date shall be credited with respect to principal and interest payments in the same manner as other assessments are credited to the Fund. All money in the Interest Account and the Principal Account shall be used first to pay interest due, and any remaining money shall be used to pay principal of the Bond then due and, if money is available, to redeem the Bond or principal installments thereof in accordance with Section 5.3; provided that any money transferred to a Principal Account from the Construction Account pursuant to Section 6.3 shall be applied to redeem the Bond or principal installments thereof to the extent possible on the next interest payment date for which notice of redemption may properly be given pursuant to Section 5.3. Redemption of the Bond shall be in order of the principal installments it represents as provided in Section 5.3, and interest shall be paid as accrued thereon to the date of redemption, in accordance with the provisions of Montana Code Annotated, Section 7-12-4206.

**Section 6.4. Loans from Revolving Fund.** The governing body shall annually or more often if necessary issue an order authorizing a loan or advance from the Revolving Fund to the Fund in an amount sufficient to make good any deficiency then existing in the Interest Account and shall issue an order authorizing a loan or advance from the Revolving Fund to the Fund in an amount sufficient to make good any deficiency then existing in the Principal Account in such order and in each case to the extent that money is available in the Revolving Fund. A deficiency shall be deemed to exist in the Principal Account or the Interest Account if the money on deposit therein on any June 15 or December 15 (excluding amounts in the Principal Account representing prepaid special assessments) is less than the amount necessary to pay the principal of the Bond due (other than upon redemption), and interest on the Bond payable, on the next succeeding interest payment date.

Pursuant to Ordinance No. 1096, the Borrower has undertaken and agreed to provide funds for the Revolving Fund by levying such tax or making such loan from the General Fund as authorized by Montana Code Annotated, Section 7-12-4222. In the event that the balance on hand in the Revolving Fund fifteen days prior to any date

when interest is due on special improvement district bonds or warrants of the Borrower is not sufficient to make good all deficiencies then existing in the special improvement district funds for which the Borrower has covenanted to make loans from the Revolving Fund, the balance on hand in the Revolving Fund shall be allocated to the funds of the special improvement districts in which such deficiencies then exist in proportion to the amounts of the deficiencies on the respective dates of receipt of such money, until all interest accrued on such special improvement district bonds or warrants of the Borrower has been paid. On any date when all accrued interest on special improvement district bonds and warrants of the Borrower payable from funds for which the Borrower has covenanted to make loans from the Revolving Fund has been paid, any balance remaining in the Revolving Fund shall be lent or advanced to the special improvement district funds for payment and redemption of bonds to the extent the special improvement district funds are deficient for such purpose, and, if money in the Revolving Fund is insufficient therefor, pro rata, in an amount proportionate to the amount of such deficiency.

The City hereby determines, covenants and agrees to levy the property tax described in the immediately preceding paragraph to provide funds for the Revolving Fund so long as any Bonds are outstanding to the extent required under the provisions of this Resolution and the Act, even though such property tax levy may, under applicable law require that property tax levies of the City for other purposes be reduced correspondingly.

**Section 6.5. Maintenance of Revolving Fund.** The Borrower covenants and agrees that so long as the Bond is outstanding, it will maintain the balance in the Revolving Fund, either through loans from its general fund or the levy of property taxes, to the extent permitted by the Borrower Act, at an amount not less than five percent of the principal amount of the outstanding special improvement district bonds and warrants of the Borrower secured thereby.

## ARTICLE VII

### COVENANTS

The Borrower covenants and agrees with the owners from time to time of the Bond that until the Bond and interest thereon and other amounts due thereunder are fully paid:

**Section 7.1. Compliance with Resolution.** The Borrower will hold the Fund and the Revolving Fund as trust funds, separate and apart from all of its other funds, and the Borrower, its officers and agents, will comply with all covenants and agreements contained in this resolution. The provisions hereinabove made with respect to the Fund and the Revolving Fund are in accordance with the undertaking and agreement of the Borrower made in connection with the offering of the Bond and the sale of the Bond as set forth in Section 11.1.

**Section 7.2. Construction of Project.** The Borrower will cause the proceeds of the Loan to be immediately paid to the Public Utilities Department for the payment of the Utility Fees described on Exhibit A hereto to be paid by the property owners included in the District as a condition to receive City water service. The Borrower confirms that the amounts shown on Exhibit A represent the costs of the Project.

**Section 7.3. Levy of Assessments.** The Borrower will do all acts and things necessary for the final and valid levy of special assessments upon all assessable real property within the boundaries of the District in accordance with the Constitution and laws of the State of Montana and the Constitution of the United States, in an aggregate principal amount not less than \$818,000. Such special assessments shall be levied on the basis or bases prescribed in the Resolution of Intention, and shall be payable in semiannual installments over a period of 20 years, each installment being due in an amount equal to one-fortieth of the principal amount of each assessment, with interest on the whole amount remaining unpaid at the average annual interest rate borne by the Bond, interest being payable with principal installments. The assessments to be levied will be payable on the 30th day of November in each of the years 2003 through 2022, and on the 31st day of May in the years 2004 through 2023, inclusive, if not theretofore paid, and shall become delinquent on such date unless paid in full. The first payment of the assessment will include interest from the date of issuance of the Bond, and each subsequent partial payment shall include interest for six months on that payment and the then remaining balance of the special assessment. The assessments shall constitute a lien upon and against the property against which they are made and levied, which lien may be extinguished only by payment of the assessment with all penalties, cost and interest as provided in Montana Code Annotated, Section 7-12-4191. No tax deed issued with respect to any lot or parcel of land shall operate as payment of any installment of the assessment thereon which is payable after the execution of such deed, and any tax deed so issued shall convey title subject only to the lien of said future installments, as provided in Montana Code Annotated, Section 15-18-214.

**Section 7.4. Reassessment.** If at any time and for whatever reason any special assessment or tax herein agreed to be levied is held invalid, the Borrower and its governing body, its officers and employees, will take all steps necessary to correct the same and to reassess and re-levy the same, including the ordering of work, with the same force and effect as if made at the time provided by law, ordinance or resolution relating thereto, and will reassess and re-levy the same with the same force and effect as an original levy thereof, as authorized in Montana Code Annotated, Section 7-12-4186. Any special assessment, or reassessment or re-levy shall, so far as is practicable, be levied and collected as it would have been if the first levy had been enforced including the levy and collection of any interest accrued on the first levy.

If proceeds of the Bond, including investment income thereon, are applied to the redemption of the Bond, as provided in Montana Code Annotated, Sections 7-12-4205 and 7-12-4206, or if refunding bonds are issued and the principal amount of the Bond is decreased or increased, the Borrower will reduce or increase, respectively, the assessments levied in the District and then outstanding pro rata by the principal amount

of such prepayment or the increment above or below the outstanding principal amount of bonds represented by the refunding bonds. The Borrower and its governing body, its officers and employees will reassess and re-levy such assessments, with the same effect as an original levy, in such reduced or increased amounts in accordance with the provisions of Montana Code Annotated, Sections 7-12-4176 through 7-12-4178.

Section 7.5. Waiver of Penalty and Interest. The Borrower covenants not to waive the payment of penalty or interest on delinquent assessments levied on property in the District for costs of the Project, unless the Borrower determines, by resolution of its governing body, that such waiver is in the best interest of the holders of the Bond.

## ARTICLE VIII

### INDEMNIFICATION OF DNRC, DEQ AND TRUSTEE

The Borrower shall indemnify and save harmless the DNRC, the DEQ and the Trustee and their officers, employees and agents (each an "Indemnified Party" or, collectively, the "Indemnified Parties") against and from any and all claims, damages, demands, expenses, liabilities and losses of every kind asserted by or on behalf of any Person arising out of, resulting from or in any way connected with the condition, use, possession, conduct, management, planning, design, acquisition, construction, installation or financing of the Project. The Borrower shall also indemnify and save harmless the Indemnified Parties against and from all costs, reasonable counsel fees, expenses and liabilities incurred in any action or proceeding brought by reason of any such claim or demand. If any proceeding is brought against an Indemnified Party by reason of any such claim or demand, the Borrower shall, upon notice from the Indemnified Party, defend such proceeding on behalf of the Indemnified Party. Notwithstanding the foregoing, the Borrower shall not be obligated to indemnify an Indemnified Party or hold it harmless against or from or in respect of any claim, damage, demand, expense, liability or loss arising from the intentional or willful misconduct or gross negligence of the Indemnified Party.

## ARTICLE IX

### ASSIGNMENT

Section 9.1. Assignment by Borrower. The Borrower may not assign its rights and obligations under this Resolution or the Bond, except as provided in Section 5.6(3).

Section 9.2. Assignment by DNRC. The DNRC will pledge its rights under and interest in this Resolution, the Bond and the Collateral Documents (except to the extent otherwise provided in the Indenture) as security for the payment of the State Bonds.

Section 9.3. State Refunding Bonds. In the event the State Bonds and Additional State Bonds are refunded by bonds which are not Additional State Bonds, all references in this Resolution to State Bonds and Additional State Bonds shall be deemed to refer to the refunding bonds and any bonds of the State on a parity with such refunding bonds (together, the "Refunding Bonds") or, in the case of a crossover refunding, to the State Bonds and Additional State Bonds and the Refunding Bonds. In the event the State Bonds are refunded by an issue of Additional State Bonds, all references in this Resolution to the State Bonds shall be deemed to refer to such Additional State Bonds or, in the case of a crossover refunding, both the State Bonds and such Additional State Bonds.

## ARTICLE X

### THE BOND

Section 10.1. Issuance and Sale of the Bond. The Council has investigated the facts necessary and hereby finds, determines and declares it to be necessary and desirable for the Borrower to issue the Bond to evidence the Loan. The Bond is issued to the DNRC without public sale pursuant to Montana Code Annotated, Section 7-12-4204(2).

Section 10.2. Terms. The Bond shall be in a principal amount equal to the Committed Amount of the Loan, shall be issued as a single, fully registered bond numbered R-1, shall be dated as of the date of delivery to the DNRC, and shall bear interest at the rate charged by the DNRC on the Loan. The principal of and interest on the Bond shall be payable on the same dates and in the same amounts as principal and interest of the Loan Repayments are payable. The principal of the Bond shall be deemed advanced when the Loan has been disbursed under Section 4.1, and principal of and interest on the Bond shall be payable in accordance with Schedule B to the Bond.

The Bond shall be deemed, for purpose of redemption, to be issued in principal installments of \$1,000 each. The Borrower may prepay all or any part of the principal of the Bond but only upon the conditions, at the times, in the amounts, at the prices, upon the notice and with the effect prescribed in Section 5.3.

Section 10.3. Negotiability, Transfer and Registration. The Bond shall be fully registered as to both principal and interest, and shall be initially registered in the name of and payable to the DNRC. While so registered, principal of and interest on the Bond shall be payable to the DNRC at the Office of the Department of Natural Resources and Conservation, 1625 Eleventh Avenue, Helena, Montana 59620 or such other place as may be designated by the DNRC in writing and delivered to the Borrower. The Bond shall be negotiable, subject to the provisions for registration and transfer contained in this section. No transfer of the Bond shall be valid unless and until (1) the holder, or his duly authorized attorney or legal representative, has executed the form of assignment appearing on the Bond, and (2) the Director of Administrative

Services of the Borrower (the “Registrar”), as Bond Registrar, has duly noted the transfer on the Bond and recorded the transfer on the registration books of the Registrar. The Registrar may, prior to noting and recording the transfer, require appropriate proof of the transferor’s authority and the genuineness of the transferor’s signature. The Borrower shall be entitled to deem and treat the person in whose name the Bond is registered as the absolute owner of the Bond for all purposes, notwithstanding any notice to the contrary, and all payments to the registered holder shall be valid and effectual to satisfy and discharge the Borrower’s liability upon such Bond to the extent of the sum or sums so paid.

Section 10.4. Execution and Delivery. The Bond shall be executed on behalf of the Borrower by the manual signatures of the Mayor, Director of Administrative Services and the City Clerk. Any or all of such signatures may be affixed at or prior to the date of delivery of the Bond. The Bond shall be sealed with the corporate seal of the Borrower. In the event that any of the officers who shall have signed the Bond shall cease to be officers of the Borrower before the Bond is issued or delivered, their signatures shall remain binding upon the Borrower. Conversely, the Bond may be signed by an authorized officer who did not hold such office on the date of adoption of this Supplemental Resolution. The Bond shall be delivered to the DNRC, or its attorney or legal representative.

Section 10.5. Form. The Bond shall be prepared in substantially the form attached as Appendix B.

## ARTICLE XI

### TAX MATTERS

Section 11.1. Use of Project. The Project will be owned and operated by the Borrower and available for use by members of the general public on a substantially equal basis. The Borrower shall not enter into any lease, use or other agreement with any non-governmental person relating to the use of the Project or security for the payment of the Bond which might cause the Bond to be considered a “private activity bond” or “private loan bond” within the meaning of Section 141 of the Code.

Section 11.2. General Covenant. The Borrower covenants and agrees with the owners from time to time of the Bond that it will not take or permit to be taken by any of its officers, employees or agents any action which would cause the interest on the Bond to become includable in gross income for federal income tax purposes under the Code and the Regulations, and covenants to take any and all actions within its powers to ensure that the interest on the Bond will not become includable in gross income for federal income tax purposes under the Code and the Regulations.

Section 11.3. Arbitrage Certification. The Mayor, the City Clerk and the Director of Administrative Services, being the officers of the Borrower charged with the responsibility for issuing the Bond pursuant to this Resolution, are authorized and

directed to execute and deliver to the DNRC a certificate in accordance with the provisions of Section 148 of the Code, and Section 1.148-2(b) of the Regulations, stating that on the basis of facts, estimates and circumstances in existence on the date of issue and delivery of the Bond, it is reasonably expected that the proceeds of the Bond will be used in a manner that would not cause the Bond to be an "arbitrage bond" within the meaning of Section 148 of the Code and the Regulations.

**Section 11.4. Arbitrage Rebate.** The City acknowledges that the Bonds are subject to the rebate requirements of Section 148(f) of the Code. The City covenants and agrees to retain such records, make such determinations, file such reports and documents and pay such amounts at such times as are required under said Section 148(f) and applicable Treasury Regulations to preserve the exclusion of interest on the Bonds from gross income for federal income tax purposes, unless the Bonds qualify for the exception from the rebate requirement under Section 148(f)(4)(B) of the Code and no "gross proceeds" of the Bonds (other than amounts constituting a "bona fide debt service fund") arise during or after the expenditure of the original proceeds thereof. In furtherance of the foregoing, the Mayor, City Clerk and Director of Administrative Services are hereby authorized and directed to execute a Rebate Certificate, substantially in the form to be prepared by Bond Counsel, and the City hereby covenants and agrees to observe and perform the covenants and agreements contained therein, unless amended or terminated in accordance with the provisions thereof.

**Section 11.5. Information Reporting.** The Borrower shall file with the Secretary of the Treasury, not later than May 15, 2003, a statement concerning the Bond containing the information required by Section 149(e) of the Code.

## ARTICLE XII

### CONTINUING DISCLOSURE

The City understands and acknowledges that the DNRC is acquiring the Bond under the Program pursuant to which the State issues from time to time State Bonds to provide funds therefor. The City covenants and agrees that, upon written request of the DNRC from time to time, the City will promptly provide to the DNRC all information that the DNRC reasonably determines to be necessary or appropriate to offer and sell State Bonds or to provide continuing disclosure in respect of State Bonds, whether under Rule 15c2-12 (17 C.F.R. § 240.15c2-12) promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, or otherwise. Such information shall include, among other things and if so requested, financial statements of the City prepared in accordance with generally accepted accounting principles promulgated by the Financial Accounting Standards Board as modified in accordance with the governmental accounting standards promulgated by the Governmental Accounting Standards Board or as otherwise provided under Montana law, as in effect from time to time (such financial statements to relate to a fiscal year or

any period therein for which they are customarily prepared by the City, and, if for a fiscal year and so requested by the DNRC, subject to an audit report and opinion of an accountant or government auditor, as permitted or required by the laws of the State). The City will also provide, with any information so furnished to the DNRC, a certificate of the Mayor, Director of Administrative Services and City Clerk of the City to the effect that, to the best of their knowledge, such information does not include any untrue statement of a material fact or omit to state any material fact required to be stated therein to make the statements made, in light of the circumstances under which they are made, not misleading.

## ARTICLE XIII

### MISCELLANEOUS

Section 13.1. Notices. All notices or other communications hereunder shall be sufficiently sent or given and shall be deemed sent or given when delivered or mailed by certified mail, postage prepaid, to the parties at the following addresses:

DNRC: Department of Natural Resources and Conservation  
1625 Eleventh Avenue  
Helena, Montana 59620  
Attention: Conservation and Resource  
Development Division

Trustee: U.S. Bank National Association  
c/o Corporate Trust Services  
1420 Fifth Avenue, 7th Floor  
Seattle, Washington 98101  
Attn: Corporate Trust Department

Borrower: City of Billings  
210 North 27<sup>th</sup> Street  
Billings, Montana 59103  
Attn: Director of Administrative Services

Any of the above parties may, by notice in writing given to the others, designate any further or different addresses to which subsequent notices or other communications shall be sent.

Section 13.2. Binding Effect. This Resolution shall inure to the benefit of and shall be binding upon the DNRC, the Borrower and their respective successors and assigns.

Section 13.3. Severability. If any provision of this Resolution shall be determined to be unenforceable at any time, it shall not affect any other provision of this Resolution or the enforceability of that provision at any other time.

Section 13.4. Amendments. This Resolution may not be effectively amended without the written consent of the DNRC.

Section 13.5. Applicable Law. This Resolution shall be governed by and construed in accordance with the laws of the State.

Section 13.6. Captions; References to Sections. The captions in this Resolution are for convenience only and do not define or limit the scope or intent of any provisions or Sections of this Resolution. References to Articles and Sections are to the Articles and Sections of this Resolution, unless the context otherwise requires.

Section 13.7. No Liability of Individual Officers, Directors or Trustees. No recourse under or upon any obligation, covenant or agreement contained in this Resolution shall be had against any director, officer or employee, as such, past, present or future, of the DNRC or the Trustee, either directly or through the DNRC or the Trustee, or against any officer, or member of the governing body or employee of the Borrower, past, present or future, as an individual so long as such individual was acting in good faith. Any and all personal liability of every nature, whether at common law or in equity, or by statute or by constitution or otherwise, of any such officer or member of the governing body or employee of the DNRC, the Trustee or the Borrower is hereby expressly waived and released by the Borrower and by the DNRC as a condition of and in consideration for the adoption of this Resolution and the making of the Loan.

Section 13.8. Payments Due on Holidays. If the date for making any payment or the last date for performance of any act or the exercise of any right, as provided in this Resolution or the Bond, shall not be a Business Day, such payments may be made or act performed or right exercised on the next succeeding Business Day with the same force and effect as if done on the nominal date provided in this Resolution or the Bond.

Section 13.9. Right of Others To Perform Borrower's Covenants. In the event the Borrower shall fail to make any payment or perform any act required to be performed hereunder, then and in each such case the DNRC or the provider of any Collateral Document may (but shall not be obligated to) remedy such default for the account of the Borrower and make advances for that purpose. No such performance or advance shall operate to release the Borrower from any such default and any sums so advanced by the DNRC or the provider of any Collateral Document shall be paid immediately to the party making such advance and shall bear interest at the rate of ten percent from the date of the advance until repaid. The DNRC and the provider of any Collateral Document shall have the right to enter the Project or the facility or facilities of which the Project is a part or any other facility which is a part of the System in order to effectuate the purposes of this Section.

Section 13.10. Authentication of Transcript. The officers of the Borrower are hereby authorized and directed to furnish to the DNRC and to Bond Counsel certified copies of all proceedings relating to the issuance of the Bond and such other certificates and affidavits as may be required to show the right, power and authority of the Borrower to issue the Bond, and all statements contained in and shown by such instruments,

including any heretofore furnished, shall constitute representations of the Borrower as to the truth of the statements purported to be shown thereby.

Section 13.11. Effective Date. This Resolution shall take effect immediately.

PASSED AND ADOPTED by the City Council of the Borrower on this 10th day of March, 2003.

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\_\_\_\_\_  
Mayor

Attest: \_\_\_\_\_  
City Clerk

## APPENDIX A

### Description of the Project

This project includes fees associated with extending water services from the City of Billings to the properties located in the Blairwood/Cedar Park Subdivisions. The following fees are included in this project:

Construction fee: .0725/sq ft of lot

System Development fee: \$1,075 per  $\frac{3}{4}$  inch meter

Franchise fee: 4% of combined amount of fees above

## APPENDIX B

### (Form of the Bond)

UNITED STATES OF AMERICA  
STATE OF MONTANA  
COUNTY OF BILLINGS

CITY OF BILLINGS

SPECIAL IMPROVEMENT DISTRICT NO. 1363 BOND  
(DNRC DRINKING WATER REVOLVING LOAN PROGRAM), SERIES 2003B

No. R-1 \$818,000

FOR VALUE RECEIVED, THE CITY OF BILLINGS, MONTANA (the "Borrower"), a duly organized municipality and political subdivision of the State of Montana, acknowledges itself to be specially indebted and, for value received, hereby promises to pay to the Department of Natural Resources and Conservation of the State of Montana (the "DNRC"), or its registered assigns, solely from its Special Improvement District No. 1363 Fund (the "Fund"), the principal sum of \$818,000, as entered on Schedule A hereto under "Total Amount Advanced," with interest at the rate of two and twenty-five hundredths percent (2.25%) per annum on the unpaid balance until paid. In addition, the Borrower shall pay an Administrative Expense Surcharge and a Loan Loss Reserve Surcharge on the outstanding principal amount of this Bond at the rates of seventy-five hundredths of one percent (0.75%) and one percent (1.00%), respectively per annum. Interest and Administrative Expense Surcharge and a Loan Loss Reserve Surcharge shall be payable in semiannual installments each payable on January 1 and July 1 (each a "Loan Repayment Date"), commencing January 1, 2004. Principal shall be payable on the dates and in the amounts set forth in Schedule B hereto. Each installment shall be in the amount set forth opposite its due date in Schedule B hereto under "Total Loan Payment." The portion of each such payment consisting of principal, the portion consisting of interest, the portion consisting of Administrative Expense Surcharge and the portion consisting of the Loan Loss Revenue Surcharge shall be as set forth in Schedule B hereto. Past-due payments of principal and interest and Administrative Expense Surcharge and Loan Loss Reserve Surcharge shall bear interest at the rate of ten percent (10.00%) per annum until paid. Interest and Administrative Expense Surcharge and Loan Loss Reserve Surcharge shall be calculated on the basis of a 360-day year comprising 12 months of 30 days each. All payments under this Bond shall be made to the registered holder of this Bond, at its address as it appears on the Bond register, in lawful money of the United States of America.

This Bond constitutes an issue in the principal amount of \$818,000 (the "Bond"), issued to finance costs of the construction of certain local improvements (the "Project")

for the special benefit of property in Special Improvement District No. 1363 of the Borrower (the "District"). The Bond is issued pursuant to and in full conformity with the Constitution and laws of the State of Montana thereunto enabling, including Montana Code Annotated, Title 7, Chapter 12, Parts 41 and 42, as amended. Reference is made to Resolution No. 03-\_\_\_\_\_, duly adopted by the governing body of the Borrower on March 10, 2003 (the "Resolution"), for a more complete statement of the terms and conditions upon which the Bond has been issued. The Bond is issuable only as a single, fully registered bond.

This Bond is payable from the collection of a special tax or assessment levied with respect to this Bond upon all assessable real property within the boundaries of the District, in an aggregate principal amount of not less than the Committed Amount (as defined in the Resolution), except as such amount may be reduced or increased in accordance with provisions of the Resolution and Montana law. Such assessments constitute a lien against the assessable real estate within the District, and this Bond is not a general obligation of the Borrower.

The City has also validly established a Special Improvement District Revolving Fund (the "Revolving Fund") to secure the payment of certain of its special improvement district bonds, including the Bonds. The City has also agreed, to the extent permitted by the Act, to issue orders annually authorizing loans or advances from the Revolving Fund to the District Fund, in amounts sufficient to make good any deficiency in the District Fund to pay principal of or interest on the Bond, to the extent that funds are available in the Revolving Fund, and to provide funds for the Revolving Fund by annually making a tax levy or loan from its general fund in an amount sufficient for that purpose, subject to the limitation that no such tax levy or loan may in any year cause the balance in the Revolving Fund to exceed five percent of the principal amount of the City's then outstanding special improvement district bonds secured thereby and the durational limitations specified in the Act. While any property tax levy to be made by the City to provide funds for the Revolving Fund is subject to levy limits under current law, the City has agreed in the Resolution to levy property taxes to provide funds for the Revolving Fund to the extent described in this paragraph and, if necessary, to reduce other property tax levies correspondingly to meet applicable levy limits.

The principal installments of the Bond are subject to mandatory redemption in order of registration on any interest payment date if, after paying all principal and interest then due on the Bond, there are funds to the credit of the Fund, from the prepayment of assessments levied in the District or from surplus proceeds of the Bond not required to pay costs of the Project, for the redemption thereof, and in the manner provided for the redemption of the same. The Bond is subject to redemption at the option of the Borrower from other sources of funds available therefor on any interest payment date. The redemption price is equal to the amount of the principal installment or installments of the Bonds to be redeemed plus interest, Administration Expense Surcharge and Loan Loss Reserve Surcharge accrued thereon to the date of redemption. The date of redemption shall be fixed by the Treasurer, who shall give notice by first-class mail, postage prepaid, to the owner or owners of the Bond at their

addresses shown on the bond register, of the numbers of the principal installments of the Bond to be redeemed and the date on which payment will be made, which date shall not be less than 10 days after the date of mailing of notice, on which date so fixed interest shall cease. On the date so fixed interest on the Bond or the principal installments hereof so redeemed shall cease to accrue.

The Borrower may prepay all or any part of the principal of the Bond but only upon the conditions, in the amounts, at the prices and upon the notice and with the effect provided in the Resolution.

The Borrower may deem and treat the person in whose name this Bond is registered as the absolute owner hereof, whether this Bond is overdue or not, for the purpose of receiving payment and for all other purposes, and the Borrower shall not be affected by any notice to the contrary.

IT IS HEREBY CERTIFIED, RECITED, COVENANTED AND AGREED that all things required to be done precedent to the issuance of this Bond have been properly done, happened and been performed in the manner prescribed by the laws of the State of Montana and the resolutions and ordinances of the Borrower, relating to the issuance thereof.

IN WITNESS WHEREOF, the City of Billings, Montana, by its governing body, has caused this Bond to be executed by the signatures of the Mayor, the Director of Administrative Services and the City Clerk, and has caused the official seal of the Borrower to be affixed hereto, and has caused this Bond to be dated as of the \_\_\_\_\_ day of \_\_\_\_\_, 2003.

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Mayor

(Seal)

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Director of Administrative Services

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City Clerk

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## REGISTRATION AND TRANSFER

This Bond shall be fully registered as to both principal and interest. No transfer of this Bond shall be valid unless and until (1) the registered holder of the Bond, or his duly authorized attorney or legal representative, executes the form of assignment appearing on this Bond, and (2) the Director of Administrative Services of the City of Billings, Montana, as bond registrar (the "Registrar"), has duly noted the transfer on the Bond and recorded the transfer on the Registrar's registration books. The Borrower shall be entitled to deem and treat the person in whose name this Bond is registered as absolute owner thereof for all purposes, notwithstanding any notice to the contrary. Payments on account of the Bond shall be made only to the order of the registered holder thereof, and all such payments shall be valid and effectual to satisfy and discharge the Borrower's liability upon the Bond to the extent of the sum or sums so paid.

### THE FOLLOWING ENTRIES ARE TO BE MADE ONLY BY THE BOND REGISTRAR UPON REGISTRATION OF EACH TRANSFER

The Director of Administrative Services of the City of Billings, Montana, acting as Bond Registrar, has transferred, on the books of the Borrower, on the date last noted below, ownership of the principal amount of and the accrued interest on this Bond to the new registered holder noted next to such date, except for amounts of principal and interest theretofore paid.

<u>Date of Transfer</u>	<u>Name of New Registered Holder</u>	<u>Signature of Bond Registrar</u>

## FORM OF ASSIGNMENT

For value received, this Bond is hereby transferred and assigned by the undersigned holder, without recourse, to \_\_\_\_\_ on this \_\_\_ day of \_\_\_\_\_, \_\_\_\_.

By: \_\_\_\_\_  
(authorized signature)

For: \_\_\_\_\_  
(Holder)

**SCHEDULE A**  
**SCHEDULE OF AMOUNTS ADVANCED**

## SCHEDULE B

<u>Date</u>	<u>Principal</u>	<u>Administrative Interest Surcharge</u>	<u>Loan Loss Reserve Surcharge</u>	<u>Total Loan Payment</u>
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APPENDIX C  
ADDITIONAL REPRESENTATIONS AND COVENANTS

None