

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 Resolution No.08-18738, entitled: "RESOLUTION RELATING TO \$7,400,000 SEWER SYSTEM REVENUE BOND (DNRC STATE REVOLVING LOAN PROGRAM), SERIES 2008; AUTHORIZING THE ISSUANCE AND FIXING THE TERMS AND CONDITIONS THEREOF" (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 regular meeting on July 28, 2008, 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notice of such meeting given as required by law; and that the Resolution has not as of the date hereof been amended or repealed.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: Ronquillo, Gagen, Pitman, Stevens, Ruegamer, McCall, Ulledalen, Astle, and Clark; voted against the same: _____; abstained from voting thereon: _____; or were absent: Veis.

WITNESS my hand officially this 28th day of July, 2008.

Cari Martin
City Clerk

SUPPLEMENTAL BOND RESOLUTION

Relating to

\$7,400,000 SEWER SYSTEM REVENUE BOND
(DNRC STATE REVOLVING LOAN PROGRAM),
SERIES 2008

CITY OF BILLINGS

Adopted: July 28, 2008

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(For convenience only, not a part of this Supplemental Resolution)

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RESOLUTION NO. 08-18738

RESOLUTION RELATING TO \$7,400,000 SEWER SYSTEM REVENUE
BOND (DNRC STATE REVOLVING LOAN PROGRAM), SERIES 2008;
AUTHORIZING THE ISSUANCE AND FIXING THE TERMS AND
CONDITIONS THEREOF

WHEREAS, pursuant to the Montana Water Pollution Control State Revolving Fund Act, Montana Code Annotated, Title 75, Chapter 5, Part 11, 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 revolving wastewater treatment works 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 water pollution control revolving fund under the Federal Water Pollution Control Act (also known as the Clean Water Act) (the "Clean 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 Clean Water Act and according to rules adopted by the Department of Environmental Quality and the Department of Natural Resources and Conservation; and

WHEREAS, the City of Billings, Yellowstone County, Montana (the "Borrower"), has applied to the DNRC for a loan (the "2008 Loan") from the Revolving Fund to enable the Borrower to finance, refinance or reimburse itself for the costs of refinancing an outstanding loan and of the 2008 Project (as hereinafter defined) which will carry out the purposes of the Clean Water Act; and

WHEREAS, the Borrower is authorized under applicable laws, ordinances and regulations to adopt this Resolution and to issue the Series 2008 Bond to evidence the 2008 Loan for the purposes set forth herein; and

WHEREAS, the DNRC will fund the 2008 Loan, directly or indirectly, in part with proceeds of the State's General Obligation Bonds (Water Pollution Control State Revolving Fund Program) (the "State Bonds") and in part 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.

"Acquisition and Construction Account" means the account within the Fund established pursuant to Sections 11.1 and 11.2 of the Original Resolution.

"Act" or "State Act" means Montana Code Annotated, Title 75, Chapter 5, Part 11, as amended from time to time.

"Administrative Expense Surcharge" means a surcharge on each 2008 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 such 2008 Loan, payable by the Borrower on the same dates that payments of interest on each of such 2008 Loan are due.

"Authorized DNRC Officer" means the Director or Deputy Director of the DNRC, and, when used with reference to an act or document, also means any other individual authorized by resolution of the Department of Natural Resources and Conservation to perform such act or sign such document. If authorized by the Department

of Natural Resources and Conservation, an Authorized DNRC Officer may delegate all or a portion of his authority as an Authorized DNRC Officer to another individual, and such individual shall be deemed an Authorized DNRC Officer for purposes of exercising such authority.

"Bond Counsel" means any Counsel acceptable to the DNRC which is nationally recognized as bond counsel. Counsel is nationally recognized as bond counsel if it has rendered a legal opinion as to the validity and enforceability of state or municipal bonds and as to the exclusion of interest thereon from gross income for federal income tax purposes (short-term issues excluded) during the two-year period preceding the date of determination.

"Bonds" means the Series 2005 Bond, the Series 2008 Bond, and any Sewer Debt to be issued on a parity therewith pursuant to Article X of the Original Resolution.

"Borrower" means the City of Billings, Montana.

"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.

"Clean Water Act" means the Federal Water Pollution Control Act, 33 U.S.C. §§ 1251-1387, as amended, and all regulations, rules and interpretations issued by the EPA thereunder.

"Closing" means the date of delivery of the Series 2008 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 Series 2008 Bond. If no Collateral Documents secure such obligations, any reference to Collateral Documents in this Resolution shall be without effect.

"Committed Amount" means the amount of the 2008 Loan committed to be lent by the DNRC to the Borrower pursuant to Section 4.1, as such amount may be reduced pursuant to Sections 3.2 and 3.4.

"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 System or the 2008 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.

"Debt" means, without duplication, (1) indebtedness of the Borrower for borrowed money or for the deferred purchase price of property or services; (2) the obligation of the Borrower as lessee under leases which should be recorded as capital leases under generally accepted accounting principles; and (3) obligations of the Borrower under direct or indirect guarantees in respect of, and obligations (contingent or otherwise) to purchase or otherwise acquire, or otherwise to assure a creditor against loss in respect of, indebtedness or obligations of others of the kinds referred to in clause (1) or (2) above.

"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, and any successor to its powers, duties and obligations under the Act.

"Enabling Act" means Montana Code Annotated, Title 7, Chapter 7, Parts 44 and 45, as amended, which authorizes the Borrower to own and operate the System, to undertake the 2008 Project and to issue the Series 2008 Bond to finance costs of the 2008 Project.

"EPA" means the Environmental Protection Agency, an agency of the United States of America, and any successor to its functions under the Clean Water Act.

"EPA Agreements" means all capitalization grant agreements and other written agreements between the DEQ and the EPA concerning the Program.

"EPA Capitalization Grant" means a grant of funds to the State by the EPA under Title VI of the Clean Water Act and any grant made available by the EPA for deposit in the Revolving Fund pursuant to Section 205(m) of the Clean Water Act.

"Fund" means the Sewer System Fund established pursuant to Section 11.1 of the Original Resolution.

"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 June 1, 1991, between the Board of Examiners of the State and the Trustee, as such has been or 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.

"Loan Loss Reserve Surcharge" means a surcharge on the 2008 Loan charged by the DNRC to the Borrower equal to one percent (1.00%) per annum on the outstanding principal amount of the 2008 Loan, payable by the Borrower on the same dates that payments of interest on the 2008 Loan are due.

"Loan Repayments" means periodic installments of principal and interest by Borrower in repayment of the 2008 Loan, at the rates and times specified in Article V.

"Loan Term" means that period of time commencing and ending as set in Sections 4.2 and 4.3.

"Net Revenues" means the entire amount of the gross revenues of the System (as described in Section 11.1 of the Original Resolution) remaining upon each such monthly apportionment, after crediting to the Operating Account the amount required hereby, including sums required to maintain the Operating Reserve in the minimum amount herein stated.

"Operating Account" means the account within the Fund established pursuant to Sections 11.1 and 11.3 of the Original Resolution.

"Operating Expenses" means those expenses of the System defined as such in Section 11.3 of the Original Resolution.

"Operating Reserve" means the reserve to be maintained in the Operating Account as required by Section 11.3 of the Original Resolution.

"Opinion of Counsel" means a written opinion of Counsel.

"Original Resolution" means Resolution No. 05-18326 of the City adopted on August 22, 2005.

"Outstanding Bonds" shall mean the outstanding Series 2005 Bond and any outstanding additional parity bonds issued in accordance with the Original Resolution and a resolution supplemental thereto, and shall include, upon the Closing, the Series 2008 Bond.

"Person" means any Private Person or Public Entity.

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

"Program" means the Water Pollution Control State Revolving Loan Program established by the Act.

"Project" means the acquisition, design, construction and installation of various improvements and betterments to the System, including the 2005 Project and 2008 Project.

"Public Entity" means a municipality, City, 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 Series 2008 Bond.

"Replacement and Depreciation Account" means the account within the Fund established pursuant to Sections 11.1 and 11.6 of the Original Resolution.

"Reserve Account" means the account within the Fund established pursuant to Sections 11.1 and 11.5 of the Original Resolution.

"Reserve Requirement" means, as of the date of calculation, an amount equal to the maximum amount of principal and interest payable on the Bonds in any future fiscal year (giving effect to mandatory sinking fund redemption, if any).

"Reserved Amounts" means any undisbursed Committed Amount which will or may be required to pay any remaining costs of the 2008 Project upon completion thereof as provided in Section 3.4(a).

"Resolution" means the Original Resolution as amended and supplemented by this Supplemental Resolution.

"Revenue Bond Account" means the account within the Fund established pursuant to Sections 11.1 and 11.4 of the Original Resolution.

"Series 2005 Bond" means the \$4,515,000 Sewer System Revenue Bond (DNRC Water Pollution Control State Revolving Loan Program), Series 2005, issued by the DNRC to evidence the 2005 Loan.

"Series 2008 Bond" means the \$7,400,000 Sewer System Revenue Bond (DNRC Revolving Loan Program), Series 2008, issued to the DNRC to evidence the 2008 Loan.

"Sewer Debt" means all Bonds and any other Debt incurred to acquire, construct, extend, improve, add to or otherwise pay expenses of or related to the System, without regard to the source of payment and security for such Debt (i.e., without regard to whether it is general obligation or revenue Debt).

"Sewer Revenues" means revenues (gross or net) received by the Borrower from or in connection with the operation of the System.

"State" means the State of Montana.

"State Bonds" means the State's General Obligation Bonds (Water Pollution Control State Revolving Fund Program), issued pursuant to the Indenture.

"Supplemental Resolution" means this Resolution No. 08-18738 as it may from time to time be amended or supplemented in accordance with its terms.

"Surplus Account" means the account within the Fund established pursuant to Sections 11.1 and 11.7 of the Original Resolution.

"Surplus Net Revenues" shall mean that portion of the Net Revenues in excess of the current requirements of the Operating Account, the Revenue Bond Account and the Reserve Account.

"System" means the existing sewer system of the Borrower and all extensions, improvements and betterments thereof hereafter constructed and acquired, including, without limitation, the 2008 Project.

"Trustee" means United States Bank National Association, or any successor trustee under the Indenture.

"2005 Committed Amount" means \$4,515,000.

"2005 Loan" means the loan made to the Borrower by the DNRC pursuant to the Program in the amount of the 2005 Committed Amount to provide funds to pay all or a portion of the 2005 Project payable under the Program.

"2005 Project" means the improvements to the System, and which consisted of upgrading the wastewater treatment plant and improvements to the headworks.

"2008 Loan" or "Loan" means the 2008 Loan made to the Borrower by the DNRC pursuant to the Program in the maximum amount of the 2008 Committed Amount to provide funds to pay all or a portion of the costs of the 2008 Project, and costs associated with the sale and issuance of the Series 2008 Bond.

"2008 Committed Amount" means the amount of the 2008 Loan committed to be lent by the DNRC to the Borrower pursuant to Section 4.1, as such amount may be reduced pursuant to Sections 3.2 and 3.4.

"2008 Loan" means the loan made to the Borrower by the DNRC pursuant to the Program in the maximum amount of the 2008 Committed Amount to provide funds to pay all or a portion of the costs of the 2008 Project and costs associated with the sale and issuance of the Series 2008 Bond.

"2008 Project" means the facilities, improvements and activities financed, refinanced or the cost of which is being reimbursed to the City with proceeds of the 2008 Loan, described in Appendix A hereto.

Section 1.2 Other Rules of Construction. For all purposes of this Supplemental 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 2008 Project;
- Appendix B: the form of the Series 2008 Bond; and
- Appendix C: additional agreements and representations of the Borrower.

ARTICLE II AUTHORIZATION, FINDINGS, REPRESENTATIONS AND COVENANTS

Section 2.1 Authorization and Findings.

(a) Authorization. Under the provisions of the Act, the City is authorized to issue and sell its revenue bonds payable during a term not exceeding forty years from their date of issue, to provide funds for the reconstruction, improvement, betterment and extension of the System or to refund its revenue bonds issued for such purpose; provided that the bonds and the interest thereon are to be payable solely out of the net income and revenues to be derived from rates, fees and charges for the services, facilities and commodities furnished by the undertaking, and are not to create any obligation for the payment of which taxes may be levied except to pay for services provided by the undertaking to the City.

(b) The System. The City, pursuant to the Act and other laws of the State has established and presently owns and operates the System.

(c) The 2008 Project. After investigation of the facts and as authorized by the Act, this Council has determined it to be necessary and desirable and in the best interests of the City to acquire and construct the 2008 Project.

(d) Outstanding Bonds. Pursuant to the Act and the Resolution, the City has issued its Series 2005 Bond to finance the 2005 Project and to pay costs of issuance of the Series 2005 Bond. The Series 2005 Bond is payable from Net Revenues of the System. No other bonds or indebtedness are outstanding that are payable from revenues of the System.

(e) Additional Parity Bonds. The City reserved the right under Section 10.3 of the Original Resolution to issue additional parity Bonds payable from the Revenue Bond Account of the Fund on a parity as to both principal and interest on the Outstanding Bonds, if the Net Revenues of the System for the last complete fiscal year preceding the issuance of such additional Bonds have equaled at least 125% of the maximum amount of principal and interest payable from the Revenue Bond Account in any subsequent fiscal year during the term of the Outstanding Bonds, on all Outstanding Bonds and on the additional bonds proposed to be issued. For the purpose of the foregoing computation, the Net Revenues for the fiscal year preceding the issuance of the additional bonds shall be the net revenues shown by the official books and records of the City, except that if the rates and charges for sewer service have been changed since the beginning of such preceding fiscal year, then the rates and charges in effect at the time of issuance of the additional Bonds shall be applied to the quantities of service actually rendered and made available during such preceding fiscal year to ascertain the gross revenues, from which there shall be deducted to determine the Net Revenues, the actual operation and maintenance cost for the last complete fiscal year shown by the official books and records of the City plus any additional annual costs of operation and maintenance which the engineer for the City estimates will be incurred because of the improvement or extension of the sewer system to be constructed from the proceeds of the additional bonds proposed to be issued. In no event shall any additional bonds be issued and made payable from the Revenue Bond Account if the City is then in default in any payment of principal or interest on any Outstanding Bonds payable therefrom, or if there then exists any deficiency in the balances required by the Original Resolution to be maintained in any of the accounts of the Sewer System Fund, which will not be cured or restored upon the issuance of the additional Bonds. Based on a certificate executed or to be executed by the Mayor and the Finance Director, it is hereby determined that the City is authorized to issue \$7,400,000 in aggregate principal amount of additional parity Bonds pursuant to Section 10.3 of the Original Resolution payable from and secured by the Net Revenues on a parity with the outstanding Series 2005 Bond.

Section 2.2 Representations. The City represents as follows:

(a) Organization and Authority. The City:

(i) is duly organized and validly existing as a municipal corporation 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 System and to carry on its current activities with respect to the System, to adopt this Supplemental Resolution and to enter into the Collateral Documents and to issue the Series 2008 Bond and to carry out and consummate all transactions contemplated by the Resolution, the Series 2008 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 Supplemental Resolution, the Series 2008 Bond and the Collateral Documents and the incurrence of the Debt evidenced by the Series 2008 Bond in the maximum amount of the Committed Amount.

(b) Pending Litigation. There is no litigation or proceeding pending, or to the knowledge of the City threatened, against or affecting the City in any court or before or by any governmental authority or arbitration board or tribunal that, if adversely determined, would materially and adversely affect the existence, corporate or otherwise, of the City, or the ability of the City to make all payments and otherwise perform its obligations under the Resolution, the Series 2008 Bond and the Collateral Documents, or the financial condition of the City, or the transactions contemplated by the Resolution, the Series 2008 Bond and the Collateral Documents or the validity and enforceability of the Resolution, the Series 2008 Bond and the Collateral Documents. No referendum petition has been filed with respect to any resolution or other action of the City relating to the 2008 Project, the Series 2008 Bond or any Collateral Documents and the period for filing any such petition will have expired before issuance of the Series 2008 Bond.

(c) Borrowing Legal and Authorized. The adoption of this Supplemental Resolution, the execution and delivery of the Series 2008 Bond and the Collateral Documents and the consummation of the transactions provided for in the Resolution, the Series 2008 Bond and the Collateral Documents and compliance by the City with the provisions of the Resolution, the Series 2008 Bond and the Collateral Documents:

(i) are within the powers of the City and have been duly authorized by all necessary action on the part of the City; 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 City pursuant to any resolution, indenture, loan agreement or other agreement or instrument (other than the Resolution and any Collateral Documents) to which the City is a party or by which the City or its property may be bound, nor will such action result in any violation of the provisions of any laws, ordinances, governmental rules or regulations or court or other governmental orders to which the City, its properties or operations are subject.

(d) No Defaults. No event has occurred and no condition exists that, upon execution and delivery of the Series 2008 Bond and the Collateral Documents, would constitute a default under the Resolution or the Collateral Documents. The City 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 City with the terms hereof or of the Series 2008 Bond and the Collateral Documents.

(e) Governmental Consent. The City has obtained or made all permits, findings and approvals required to the date of adoption of this Supplemental Resolution by any governmental body or officer for the making and performance by the City of its obligations under this Supplemental Resolution, the Series 2008 Bond and the Collateral Documents (including any necessary sewer rate increase) or for the 2008 Project, the financing or refinancing thereof or the reimbursement of the City 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 City as a condition to adopting this Supplemental Resolution, issuing the Series 2008 Bond or entering into the Collateral Documents and the performance of the City's obligations hereunder and thereunder. If a utility board or commission manages or controls the System, such board or commission has agreed with the DNRC to abide by the terms of the Resolution and the Collateral Documents, including approving any necessary sewer rate increases.

(f) Binding Obligation. The Resolution, the Series 2008 Bond and any Collateral Document to which the City is a party are the valid and binding special, limited obligations and agreements of the City, enforceable against the City 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 2008 Project. The 2008 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 Supplemental Resolution.

(h) Full Disclosure. There is no fact that the City has not specifically disclosed in writing to the DNRC that materially and adversely affects or (so far as the City can now foresee), except for pending or proposed legislation or regulations that are a matter of general public information, that will materially and adversely affect the properties, operations and finances of the System, the City's status as a Public Entity and Governmental Unit, its ability to own and operate the System in the manner it is currently operated or the City's ability to perform its obligations under the Resolution, the Series 2008 Bond and the Collateral Documents and to pledge any revenues or other property pledged to the payment of the Series 2008 Bond.

(i) Compliance With Law. The City:

(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 System or its status 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 System 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 System and the operation thereof, which failure to obtain might materially and adversely affect the ability of the City to conduct the operation of the System as presently conducted or the condition (financial or otherwise) of the System or the City's ability to perform its obligations under the Resolution, the Series 2008 Bond and the Collateral Documents.

Section 2.3 Covenants.

(a) Insurance. In addition to the requirements of Section 2.2 of the Original Resolution, the City at all times shall keep and maintain with respect to the System property and casualty insurance and liability insurance with financially sound and reputable insurers, or self-insurance as authorized by State law, against such risks and in such amounts, and with such deductible provisions, as are customary in the State in the case of entities of the same size and type as the City and similarly situated and shall carry and maintain, or cause to be carried and maintained, and pay or cause to be paid timely the premiums for all such insurance. All such insurance policies shall name the DNRC as an additional insured. Each policy must provide that it cannot be cancelled by the insurer without giving the City and the DNRC 10 days' prior written notice. The City shall give the DNRC prompt notice of each insurance policy it obtains or maintains to comply with this Section 2.3(a) and of each renewal, replacement, change in coverage or deductible under or amount of or cancellation of each such insurance policy and the amount and coverage and deductibles and carrier of each new or replacement policy. Such notice shall specifically note any adverse change as being an adverse change. The City shall deliver to the DNRC at Closing a certificate providing the information required by this Section 2.3(a).

(b) Right of Inspection and Notice of Change of Location. The DNRC, the DEQ 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 City for the purpose of inspecting the System or any or all books and records of the City relating to the System.

(c) Further Assurance. The City 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 the Resolution, the Series 2008 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 the Resolution, the Series 2008 Bond and the Collateral Documents.

(d) Maintenance of Security, if Any; Recordation of Interest.

(i) The City shall, at its expense, take all necessary action to maintain and preserve the lien and security interest of the Resolution and the Collateral Documents so long as any amount is owing under the Resolution or the Series 2008 Bond;

(ii) The City shall forthwith, after the execution and delivery of the Series 2008 Bond and thereafter from time to time, cause the Resolution and any Collateral Documents granting a security interest in revenues or real or personal property and any financing statements or other notices or documents relating thereto to be filed, registered and recorded in such manner and in such places as may be required by law in order to perfect and protect fully the lien and security interest hereof and thereof and the security interest in them granted by the Resolution and, from time to time, shall perform or cause to be performed any other act required by law, including executing or causing to be executed any and all required continuation statements and shall execute or cause to be executed any further instruments that may be requested by the DNRC for such perfection and protection; and

(iii) Except to the extent it is exempt herefrom, the City shall pay or cause to be paid all filing, registration and recording fees incident to such filing, registration and recording, and all expenses incident to the preparation, execution and acknowledgment of the documents described in subparagraph (ii), and all federal or state fees and other similar fees, duties, imposts, assessments and charges arising out of or in connection with the execution and delivery of the Series 2008 Bond and the Collateral Documents and the documents described in subparagraph (ii).

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

(f) Financial Information. This Section 2.3(f) supplements, and is not intended to limit, the requirements in Section 2.2(f) of the Original Resolution. The City agrees that for each fiscal year it shall furnish to the DNRC and the DEQ, promptly when available:

(1) the preliminary budget for the System, with items for the 2008 Project shown separately; and

(2) when adopted, the final budget for the System, with items for the 2008 Project shown separately.

The City 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 System, the monthly gross revenues derived from its operation, and the segregation and application of the gross revenues in accordance with the Resolution, in such reasonable detail as may be determined by the City in accordance with generally accepted governmental accounting practice and principles. It will cause such books to be maintained on the basis of the same fiscal year as that utilized by the City. The City shall, within 180 days after the close of each fiscal year, cause to be prepared and supply to the DNRC a financial report with respect to the System for such fiscal year. The report shall be prepared at the direction of the financial officer of the City in accordance with applicable generally accepted governmental accounting principles and, in addition to whatever matters may be thought proper by the financial officer to be included therein, shall include the following:

(A) A statement in detail of the income and expenditures of the System for the fiscal year, identifying capital expenditures and separating them from operating expenditures;

(B) A balance sheet as of the end of the fiscal year;

(C) The number of premises connected to the System at the end of the fiscal year;

(D) The amount on hand in each account of the Fund at the end of the fiscal year;

(E) A list of the insurance policies and fidelity bonds in force at the end of the fiscal year, setting out as to each the amount thereof, the risks covered thereby, the name of the insurer or surety and the expiration date of the policy or bond; and

(F) A determination that the report shows full compliance by the City with the provisions of the Resolution during the fiscal year covered thereby, including proper segregation of the capital expenditures from operating expenses, maintenance of the required balance in the Reserve, and receipt of Net Revenues during each fiscal year at least equal to 125% of the maximum amount of principal and interest payable on Outstanding Parity Bonds in any subsequent fiscal year, or, if the report should reveal that the revenues have been insufficient for compliance with the Resolution, or that the methods used in accounting for such revenues were contrary to any provision of the Resolution, the report shall include a full explanation thereof, together with recommendations for such change in rates or accounting practices or in the operation of the System as may be required.

The City shall also have prepared and supplied to the DNRC and the DEQ, within 180 days of the close of every other 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 System. The audit report shall include an analysis of the City's compliance with the provisions of the Resolution.

(g) Project Accounts. The City shall maintain Project accounts in accordance with generally accepted government accounting standards, and as separate accounts, as required by Section 602(b)(9) of the Clean Water Act.

(h) Records. After reasonable notice from the EPA, the City shall make available to the EPA such records as the EPA reasonably requires to review and determine compliance with Title VI of the Clean Water Act, as provided in Section 606(e) of the Clean Water Act.

(i) Compliance with Clean Water Act. The City has complied and shall comply with all conditions and requirements of the Clean Water Act pertaining to the Loan and the 2008 Project.

(j) Program Covenant. The City agrees that neither it nor any "related person" to the City (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 Series 2008 Bond.

(k) Information Reporting. The City understands and acknowledges that the DNRC is financing the purchase of the Series 2008 Bond under the Program pursuant to which the State issues from time to time the 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 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 (17 C.F.R. § 240.15c2-12) or otherwise. Such information shall include, among other things and if so requested, financial statements of the City or the System 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 Department, subject to an audit report and opinion of an accountant or government auditor, as permitted or required by the laws of the State of Montana). The City will also provide, with any information so furnished to the Department, a certificate of the Mayor and the City Clerk 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.

Section 2.4 Covenants Relating to the Tax-Exempt Status of the State Bonds.

(a) The City covenants and agrees that it will not use or permit to be used any of the proceeds of the Series 2008 Bond or any other funds of the City in respect of the 2008 Project or the Series 2008 Bond, 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 City 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 City shall not use or permit the use of the 2008 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 (within the meaning of the Regulations) 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 2008 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 City and not by any other Person. Any portion of the 2008 Project being financed shall be acquired by and shall, during the term of the Loan, be owned by the City and not by any other Person. Notwithstanding the previous two sentences, the City may transfer the 2008 Project or a portion thereof to another Governmental Unit which

is also a Public Entity if such transfer is otherwise permitted under the Resolution and if such organization agrees with the DNRC to comply with Sections 2.2(h) and 2.2(i) of this Supplemental Resolution and if the DNRC receives an Opinion of Bond Counsel that such transfer will not violate the State Act or the Clean Water Act or adversely affect the exclusion of interest on the Bonds from gross income or purposes of federal income taxation. In addition, except as otherwise provided in the Resolution or in any Collateral Documents, the City may sell or otherwise dispose of any portion of the 2008 Project which has become obsolete or outmoded or is being replaced or for other reasons is not needed by the City or beneficial to the general public or necessary to carry out the purposes of the Clean Water Act.

(d) At the Closing of the 2008 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 City instructions concerning compliance by the City with the arbitrage rebate requirements of Section 148 of the Code (the "Arbitrage Rebate Instructions"). The City 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 (except 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 City agrees that during the Loan Term it will not contract with or permit any Private Person to manage the 2008 Project or any portion thereof except according to a written management contract which complies with the following provisions:

(1) If any contract between the City and the Private Person with respect to the 2008 Project provides for compensation based on a percentage of fees charged for services rendered by the Private Person, the contract may not exceed a term of five years (including any renewal options). At least 50% of the compensation to the Private Person must be based upon a periodic fixed fee. In addition, the City must be able to cancel the contract without penalty or cause at the end of any three-year period of the contract term. The compensation must be reasonable, and it may not be based on a percentage of the net profits of the 2008 Project or the System or any portion thereof or any other division or activity of the City.

(2) If any contract between the City and the Private Person with respect to the 2008 Project provides for compensation based on a periodic flat fee, the compensation must be reasonable and the contract may not exceed a term of five years (including any renewal options). In addition, the City must be able to cancel the contract without penalty or cause at the end of any three-year period of the contract term. If the contract provides for automatic increases in the periodic flat fee, the increases may not exceed the percentage increases determined by particular external standards for computing such increases that are mutually agreed upon in the contract. The percentage increases reflected in the Consumer Price Index compiled by the Bureau of Labor Statistics, U.S. Department of Labor, or the actual percentage increases for services that result from the application of external criteria (for example, increases in rates paid by insurance companies) are illustrations of two external standards that may be used.

(3) If a Private Person and the City enter into a contract described in subparagraph (1) or (2) above and the governing body of the City contains five or more members, no more than one member of the governing body of the City may be the Private Person or a related person (as described in Section 144(a)(3) of the Code) (a "Related Person"), an employee of the Private Person or a Related Person, or a member of the governing body of the Private Person or a Related Person. However, such Private Person or a Related Person, employee of the Private Person or a Related Person or a member of the governing body of the Private Person or a Related Person may not serve as the chief executive of the City. If a Private Person and the City enter into a contract described in (1) or (2) above and the governing body contains less than five members, no member of the governing body may be the Private Person or a Related Person, an employee of the Private Person or a Related Person or a member of the governing body of the Private Person or a Related Person.

(4) The City may depart from any of its agreements contained in subparagraphs (1) through (3) if it delivers to the DNRC, at the City'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 City may not lease the 2008 Project or any portion thereof to any Person other than a Nonexempt Person which agrees in writing with the City and the State not to cause any default to occur under the Resolution; provided the City may lease all or any portion of the 2008 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 City shall not change the use or nature of the 2008 Project if (i) such change will violate the Clean 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.

Section 2.5 Maintenance of System; Liens. The City shall maintain the System, including the 2008 Project, in good condition and make all necessary renewals, replacements, additions, betterments and improvements thereto. The City shall not grant or permit to exist any lien on the 2008 Project or any other property making up part of the System, other than liens securing Debt where a parity or senior lien secures the Series 2008 Bond; provided that this Section 2.5 shall not be deemed to be violated if a mechanic's or contractor's lien is filed against any such property so long as the City uses its best efforts to obtain the discharge of such lien and promptly reports to the DNRC the filing of such lien and the steps it plans to take and does take to discharge of such lien.

Section 2.6 Maintenance of Existence; Merger, Consolidation, Etc.; Disposition of Assets. The City shall maintain its corporate existence, except that it may consolidate with or merge into another Governmental Unit or permit one or more Governmental Units to consolidate with or merge into it or may transfer all or substantially all of its assets to another Governmental Unit and then dissolve if the surviving, resulting or transferee entity (if other than the City) (i) is a Public Entity and (ii) assumes in writing all of the obligations of the City under the Resolution, the Series 2008 Bond and the Collateral Documents, and (a) such action does not result in any default in the performance or observance of any of the terms, covenants or agreements of the City under the Resolution, the Series 2008 Bond and the Collateral Documents, (b) such action does not violate the State Act or the Clean Water Act and does not adversely affect the exclusion of interest on the Series 2008 Bond or the State Bonds from gross income for federal income tax purposes and (c) the City delivers to the DNRC on the date of such action an Opinion of Bond Counsel that such action complies with this Section 2.6.

Other than pursuant to the preceding paragraph, the City shall not transfer the System or any portion thereof to any other Person, except for property which is obsolete, outmoded, worn out, is being replaced or otherwise is not needed for the operation of the System, unless the provisions of (a) and (b) of the preceding paragraph are satisfied and the City delivers to the DNRC an Opinion of Bond Counsel to that effect and, in addition, the DNRC consents to such transfer.

ARTICLE III USE OF PROCEEDS; THE 2008 PROJECT

Section 3.1 Use of Proceeds. The City shall apply the proceeds of the 2008 Loan from the DNRC solely as follows:

(a) The Borrower shall apply the proceeds of the 2008 Loan solely to the financing, refinancing or reimbursement of the costs of the 2008 Project as set forth in Appendix A hereto and this Section 3.1. The 2008 Loan will be disbursed in accordance with Article IV hereof and Article VII of the Indenture. If the 2008 Project has not been completed prior to Closing, the Borrower shall, as quickly as reasonably possible, complete the 2008 Project and expend proceeds of the Series 2008 Bond to pay the costs of completing the 2008 Project.

(b) No portion of the proceeds of the 2008 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 March 7, 1985. In addition, if any proceeds of the 2008 Loan are to be used to reimburse the Borrower for Project costs paid prior to the date of adoption of this Resolution and in a prior fiscal year of the Borrower, the Borrower represents that at the time it incurred such costs it

intended to finance them with tax-exempt debt or a loan under a state revolving fund program such as the Program.

(c) Any Debt to be refinanced with proceeds of the 2008 Loan was incurred after March 7, 1985, for a project the construction or acquisition of which began after March 7, 1985.

Section 3.2 The 2008 Project. Set forth in Appendix A to this Supplemental Resolution is a description of the 2008 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 from the Loan (the 2008 Project may consist of more than one facility or activity). The 2008 Project may be changed and the description thereof in Appendix A may be amended from time to time by the City but only after delivery to the DNRC of the following:

(a) A certificate of the City setting forth the amendment to Appendix A and stating the reason therefor, including statements whether the amendment would cause an increase or decrease in the cost of the 2008 Project, an increase or decrease in the amount of Loan proceeds which will be required to complete the 2008 Project and whether the change will materially accelerate or delay the construction schedule for the 2008 Project;

(b) A written consent to such change in the 2008 Project by an Authorized DNRC Officer;

(c) An Opinion or Opinions of Bond Counsel stating that the 2008 Project, as constituted after such amendment, is, and was at the time the State Bonds were issued, eligible for financing under the State Act and is, and was at the time the Series 2008 Bond was issued, eligible for financing under the Act, such amendment will not violate the State Act or the Act and such amendment will not adversely affect the exclusion of interest on the State Bonds or the Series 2008 Bond from gross income for purposes of federal income taxation. Such an Opinion of Bond Counsel shall not be required for amendments which do not affect the type of facility to be constructed or activity to be financed.

The City acknowledges and agrees that an increase in the principal amount of the Loan may be made only upon an application to the DEQ, the DNRC and the Trustee, in such form as the DEQ shall specify, which is approved by the DEQ and the DNRC, in their sole and absolute discretion, and adoption by the governing body of the City of a resolution amendatory of or supplementary to the Resolution authorizing the additional loan and delivery of written certifications by officers of the City to the DEQ, the DNRC and the Trustee to the effect that all representations and covenants contained in the resolution as it may be so amended or supplemented are true as of the date of closing of the additional loan and compliance with applicable tests for the incurrence of such Debt. No assurance can be given that any additional loan funds will be available under the Program at the time of any such application or thereafter. The City acknowledges and agrees that neither the DEQ, the DNRC, the Trustee nor any of their agents, employees or representatives shall have any liability to the City and have made no representations to the City as to the sufficiency of the Loan to pay Project Costs or as to the availability of additional funds under the Program to increase the principal amount of the Loan.

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

(a) all construction of the 2008 Project has complied and will comply with all federal and state standards, including, without limitation, EPA regulations and standards;

(b) all future construction of the 2008 Project will be done only pursuant to fixed price construction contracts. The City shall obtain a performance and payment bond from the contractor for each construction contract in the amount of 100% of the construction price and ensure that such bond is maintained until construction is completed to the City's, the DNRC's and the DEQ's satisfaction;

(c) all future construction will be done in accordance with plans and specifications on file with the DNRC and the DEQ, provided that changes may be made in such plans and specifications with the written consent of an Authorized DNRC Officer and the DEQ; and

(d) the 2008 Project is a project of the type permitted to be financed under the Act, the State Act and the Program and Title VI of the Clean Water Act.

Section 3.4 Completion or Cancellation or Reduction of Costs of the 2008 Project.

(a) Upon completion of the 2008 Project, the City shall deliver to the DNRC a certificate stating that the 2008 Project is complete, stating the amount, if any, of the Reserved Amounts, and releasing the remaining amount, if any, of the Committed Amount. If any Reserved Amount is not later needed, the City shall so inform the DNRC and release such amount. If Appendix A describes two or more separate projects as making up the 2008 Project, a separate completion certificate shall be delivered for each.

(b) If all or any portion of the 2008 Project is cancelled or cut back or its costs are reduced or for any other reason the City will not require the full Committed Amount, the City shall promptly notify the DNRC in writing of such fact and release the portion of the Committed Amount which will not be needed.

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, an amount up to: (i) \$7,400,000 (the "2008 Committed Amount") for the purposes of financing, refinancing or reimbursing the Borrower for all or a portion of the costs of the 2008 Project and paying costs of issuance on the Series 2008 Bond; provided the DNRC shall not be required to loan any proceeds of the State Bonds to the Borrower after 360 days following the Estimated Completion Date. The Committed Amount may be reduced as provided in Sections 3.2 and 3.4. The 2008 Loan shall be disbursed as provided in this Section 4.1. The DNRC intends to disburse the 2008 Loan through the Trustee.

(a) In consideration of the issuance of the Series 2008 Bond by the Borrower, the DNRC shall make, or cause the Trustee to make, a disbursement of all or a portion of the 2008 Loan upon receipt of the following documents:

(1) an Opinion of Bond Counsel as to the validity and enforceability of each series of the Series 2008 Bond and the security therefor and stating in effect that interest on each series of the Series 2008 Bond is not includable in gross income of the owner thereof for purposes of federal income taxation, in form and substance satisfactory to the DNRC;

(2) the Series 2008 Bond, fully executed and authenticated;

(3) a certified copy of this Supplemental Resolution;

(4) any other security instruments or documents required by the DNRC or DEQ as a condition to their approval of the 2008 Loan;

(5) if all or part of the 2008 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 2008 Project was begun no earlier than March 7, 1985 or the debt was incurred no earlier than March 7, 1985, (B) of the Borrower's title to the 2008 Project, (C) of the costs of the 2008 Project and that such costs have been paid by the Borrower and (D) on or before the date of payment of each Reimbursement Expenditure, that the Borrower (or person designated to do so on behalf of the Borrower) made or will have made a written declaration of the Borrower's official intent (a "Declaration") which complies with the provisions of Section 1.150-2(d) and (e) of the Reimbursement Regulations; however, the Declaration need not cover Reimbursement Expenditures: (i) to be paid or reimbursed from sources other than the Series 2008 Bond, (ii) constituting "preliminary expenditures" (within the meaning of Section 1.150-2(f)(2) of the Regulations) for the 2008 Project, including engineering or architectural expenses and similar preparatory expenses, which in the aggregate do not exceed 20% of the "issue price" of the Series 2008 Bond, (iii) in a "de minimis" amount (as defined in Section 1.150-2(f)(1) of the Regulations), i.e., \$100,000; or (iv) Reimbursement Expenditures paid not more than 60 days before the date of the Declaration. For purposes of this subparagraph, "Reimbursement Regulations" shall mean Treasury Regulations, Section 1.150-2 and "Reimbursement Expenditures" shall mean any expenditure with respect to the 2008 Project that the Borrower paid or will have paid prior to the issuance of the Series 2008 Bond;

(6) the items required by the Indenture for the portion of the 2008 Loan to be disbursed at Closing; and

(7) 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 a disbursement of a portion of the 2008 Loan to pay costs of the 2008 Project, the Borrower shall submit to the DNRC and the Trustee a signed request for disbursement on the form prescribed by the DNRC, with all attachments required by such form. The Borrower may obtain disbursements only for costs which have been legally incurred and are due and payable. All Loan disbursements will be made to the Borrower only upon proof that cost was incurred.

(c) For refinancings, a disbursement schedule complying with the requirements of the Clean Water Act shall be established by the DNRC and the Borrower at Closing. If the Borrower should repay all or a portion of the debt to be refinanced from other sources or should otherwise not need any portion of the loan which was to have been used to refinance such debt, it shall inform the DNRC and the Trustee of such fact pursuant to Section 3.4(b) and a new disbursement schedule shall be drawn up by the DNRC. The DNRC shall obtain a receipt from the holder of the debt being refinanced for each disbursement made to pay or prepay a portion of such debt.

(d) If all or a portion of the 2008 Loan is made to reimburse a Borrower for Project costs paid by it prior to Closing, the Borrower shall present at Closing the items required by Section 4.1(b) relating to such costs. The Trustee shall disburse such amounts to the Borrower pursuant to a disbursement schedule complying with the requirements of the Clean Water Act established by the DNRC and the Borrower at the Closing.

(e) Notwithstanding anything else provided herein, the Trustee shall not be obligated to disburse the 2008 Loan any faster or to any greater extent than it has available EPA Capitalization Grants, Bond proceeds and other amounts available therefor in the Revolving Fund. The DNRC shall not be required to do "overmatching" pursuant to Section 5.04(b) of the Indenture, but may do so in its discretion. The Borrower acknowledges that if Project costs are incurred faster than the Borrower projected at Closing, there may be delays in making disbursements of the 2008 Loan for such costs because of the schedule under which EPA makes EPA Capitalization Grant money available to the DNRC. The DNRC will use its commercially reasonable efforts to obtain an acceleration of such schedule if necessary.

(f) Upon making each 2008 Loan disbursement, the Trustee shall note such disbursement on Schedule A to the Series 2008 Bond.

(g) The Borrower agrees that it will deposit in the Reserve Account upon receipt thereof, on the Closing Date of the 2008 Loan and upon any disbursement date, any proceeds of the 2008 Loan borrowed for the purpose of increasing the balance in the Reserve Account to the Reserve Requirement. The Borrower further acknowledges and agrees that any portion of the 2008 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, as appropriate, be a credit against the interest payments due on the 2008 Loan, and interest on any such loan so affected 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 first disbursement by the Trustee of the proceeds of the 2008 Loan.

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 Series 2008 Bond and this Resolution; provided, however, that the covenants and obligations provided in Article VI and Section 10.4 shall survive the termination of this Resolution.

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 2008 LOAN

Section 5.1 Repayment of 2008 Loan. The Borrower shall repay the amounts lent to it pursuant to Section 4.1 hereof, plus interest on the unpaid amounts lent at the rate of two percent (2.00%) per annum, in semiannual Loan Repayments. In addition, the Borrower shall pay an Administrative Expense Surcharge on the outstanding principal amount of the 2008 Loan at the rate of seventy-five hundredths of one percent (0.75%) per annum and a Loan Loss Reserve Surcharge on the outstanding principal amount of the 2008 Loan at the rate of one percent (1.00%) per annum. For purposes of this Resolution and the Program, the term "interest" on a Loan shall include the Administrative Expense Surcharge and Loan Loss Reserve Surcharge. The Borrower shall pay all Loan Repayments and the Administrative Expense Surcharge and Loan Loss Reserve Surcharge in lawful money of the United States of America to the DNRC. Interest, the 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 Surcharge and Loan Loss Reserve Surcharge shall be due on each January 1 and July 1 (the "Payment Dates"), as follows:

- (1) interest and the Administrative Expense Surcharge and Loan Loss Reserve Surcharge on the outstanding principal balance of the 2008 Loan shall be payable on each January 1 and July 1, beginning on January 1, 2009, which is the first Payment Date after the Closing of the 2008 Loan;
- (2) the principal of the 2008 Loan shall be repayable on each Payment Date, beginning on January 1, 2009 and concluding on July 1, 2028, and the amount of each principal payment shall be calculated on the basis of substantially level debt service at a rate of 3.75% per annum; and

The payments of principal of and interest and the Administrative Expense Surcharge and the Loan Loss Reserve Surcharge on the 2008 Loan shall be due on the dates specified above and on the dates and in the amounts shown in Schedule B of the Series 2008 Bond, as such Schedule B shall be modified from time to time as provided below. 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 portion consisting of the Loan Loss Reserve Surcharge shall be set forth in Schedule B to the Series 2008 Bond. Upon each disbursement of amounts of the 2008 Loan to the Borrower pursuant to Section 4.1 hereof, the Trustee shall enter or cause to be entered the amount advanced on Schedule A to the Series 2008 Bond, under "Advances" and the total amount advanced under Section 4.1, including such disbursement, under "Total Amount Advanced."

If the advance was made to pay costs of the 2008 Project pursuant to Section 4.1(b), interest and Administrative Expense Surcharge and the Loan Loss Reserve Surcharge on such advance shall accrue from the date the advance is made and shall be payable on each Payment Date thereafter. Once the completion certificate for a Project has been delivered to the DNRC, the Trustee shall revise Schedule B to the Series 2008 Bond, as appropriate, in accordance with this Section 5.1, and the Trustee shall send a copy of such Schedule B to the Borrower within one month after delivery of the completion certificate.

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

Any payment of principal, interest, the Administrative Expense Surcharge, and the Loan Loss Reserve Surcharge under this Section 5.1 shall also be credited against the same payment obligation under the Series 2008 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 2008 Loan, if the Borrower so chooses, all reasonable expenses of the DNRC and the Trustee in connection with the 2008 Loan, the Collateral Documents and the Series 2008 Bond, including, but not limited to:

- (a) the cost of reproducing this Resolution, the Collateral Documents and the Series 2008 Bond;

(b) 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 Series 2008 Bond and the enforcement thereof; and

(c) all taxes and other governmental charges in connection with the execution and delivery of the Collateral Documents or the Series 2008 Bond, whether or not any of the Series 2008 Bond is then outstanding, including all recording and filing fees relating to the Collateral Documents and the pledge of the State's right, title and interest in and to the Series 2008 Bond, the Collateral Documents and this Resolution 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 not prepay all or any part of the outstanding principal amount of any of the Series 2008 Bond unless (i) it obtains the prior written consent of the DNRC thereto, and (ii) no Loan Repayment, Administrative Expense Surcharge, or Loan 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 any of the Series 2008 Bond is prepaid in part pursuant to this Section 5.3, such prepayments shall be applied to principal payments in inverse order of maturity.

Section 5.4 Obligations of Borrower Unconditional. The obligations of the Borrower to make the payments required by this Resolution and the Series 2008 Bond and to perform its other agreements contained in this Resolution, the Series 2008 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 Series 2008 Bond, (b) shall perform all its other agreements in this Resolution, the Series 2008 Bond and the Collateral Documents and (c) shall not terminate this Resolution, the Series 2008 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 2008 Project or the System, 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. Provided, however, if none of the 2008 Loan contemplated herein is made and no funds are disbursed to the Borrower, this Resolution may be terminated.

Section 5.5 Limited Liability. All payments of principal of and interest on the 2008 Loan and other payment obligations of the Borrower hereunder and under the Series 2008 Bond shall be special, limited obligations of the Borrower payable solely out of the Net Revenues or out of the Revenue Bond Account and shall not be payable out of any other funds or revenues of the Borrower. The obligations of the Borrower under this Resolution and the Series 2008 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. The taxing powers of the Borrower are not pledged to pay principal of or interest on the Series 2008 Bond, and no funds or property of the Borrower other than the Net Revenues are pledged to pay principal of or interest on the Series 2008 Bond.

ARTICLE VI INDEMNIFICATION OF DNRC AND DEQ

The City shall indemnify and save harmless the DNRC, DEQ 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 the acts or omissions of the City or its employees, officers, agents, contractors, subcontractors, or consultants in connection with or with regard to the condition, use, possession, conduct, management, planning, design, acquisition, construction, installation or financing of the 2008 Project. The City shall also indemnify and save harmless the Indemnified Parties against and from all costs, reasonable attorneys' 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 such claim or demand, the City shall, upon notice from an Indemnified Party, defend such proceeding on behalf of the Indemnified Party.

ARTICLE VII ASSIGNMENT

Section 7.1 Assignment by City. The City may not assign its rights and obligations under the Resolution or the Series 2008 Bond.

Section 7.2 Assignment by DNRC. The DNRC will pledge its rights under and interest in the Resolution, the Series 2008 Bond and the Collateral Documents (except to the extent otherwise provided in the Indenture) as security for the payment of the State Bonds.

Section 7.3 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 the 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 the 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 VIII THE SERIES 2008 BOND

Section 8.1 Net Revenues Available. The City is authorized to charge just and equitable rates, charges and rentals for all services directly or indirectly furnished by the System, and to pledge and appropriate to the Outstanding Bonds and the Series 2008 Bond the net revenues to be derived from the operation of the System, including improvements, betterments or extensions thereof hereafter constructed or acquired. The net revenues to be produced by such rates, charges and rentals during the term of the Series 2008 Bond will be more than sufficient to pay the principal and interest when due on the Series 2008 Bond, and to create and maintain reasonable reserves therefor and to provide an adequate allowance for replacement and depreciation, as herein prescribed.

Section 8.2 Issuance and Sale of the Series 2008 Bond. The Council has investigated the facts necessary and hereby finds, determines and declares it to be necessary and desirable for the City to issue the Series 2008 Bond to evidence the 2008 Loan. The Series 2008 Bond is issued to the DNRC without public sale pursuant to Montana Code Annotated, Section 7-7-4433(2)(a).

Section 8.3 Terms. The Series 2008 Bond shall be in the maximum principal amount equal to the original 2008 Committed Amount, 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 2008 Loan. The principal of and interest on the Series 2008 Bond shall be payable on the same dates and in the same amounts on which principal and interest of the Loan Repayments are payable. Advances of principal of the Series 2008 Bond shall be deemed made when advances of the 2008 Loan are made under Section 4.1, and such advances shall be payable in accordance with Schedule B to the Series 2008 Bond as it may be revised by the DNRC from time to time in accordance with Section 5.1.

The Borrower may prepay the Series 2008 Bond, in whole or in part, only upon the terms and conditions under which it can prepay the Loan under Section 5.3.

Section 8.4 Negotiability, Transfer and Registration. The Series 2008 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 Series 2008 Bond shall be payable to the DNRC at the Office of the Department of Natural Resources and Conservation, 1625 Eleventh Avenue, Helena, Montana 59620-2301 or such other place as may be designated by the DNRC in writing and delivered to the City. The Series 2008 Bond shall be negotiable, subject to the provisions for registration and transfer contained in this Section. No transfer of the Series 2008 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 Series 2008 Bond, and (2) the Clerk-Treasurer of the City (or successors, the "Registrar"), as Bond Registrar, has duly noted the transfer on the Series 2008 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 City shall be entitled to deem and treat the Person in whose name the Series 2008 Bond is registered as the absolute owner of the Series 2008 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 City's liability upon such Bond to the extent of the sum or sums so paid.

Section 8.5 Execution and Delivery. The Series 2008 Bond shall be executed on behalf of the City by the manual signatures of the Mayor and City Clerk. Any or all of such signatures may be affixed at or prior to the date of delivery of the Series 2008 Bond. The Series 2008 Bond shall be sealed with the corporate seal of the City. In the event that any of the officers who shall have signed the Series 2008 Bond shall cease to be officers of the City before the Series 2008 Bond is issued or delivered, their signatures shall remain binding upon the City. Conversely, the Series 2008 Bond may be signed by an authorized official who did not hold such office on the date of adoption of this Supplemental Resolution. The Series 2008 Bond shall be delivered to the DNRC, or its attorney or legal representative.

Section 8.6 Form. The Series 2008 Bond shall be prepared in substantially the form attached as Appendix B.

ARTICLE IX SECURITY FOR THE SERIES 2008 BOND

The Series 2008 Bond is issued as additional parity Bonds under Section 10.3 of the Original Resolution and shall, with the Series 2005 Bond and any other additional parity Bonds issued under the provisions of Section 10.3 of the Original Resolution, be equally and ratably secured by the provisions of the Resolution and payable out of the Net Revenues appropriated to the Revenue Bond Account of the Sewer System Fund, without preference or priority, all as provided in the Resolution, and secured by the Reserve Account to the Reserve Requirement, as further provided in Section 10.3 of the Original Resolution. Upon advancement of principal of the Series 2008 Bond, the Finance Director shall transfer from available funds of the System or proceeds of the Series 2008 Bond such amount or amounts to the Reserve Account to cause the balance therein to equal the Reserve Requirement, treating such principal amount as Outstanding. Upon the first advance of proceeds of the Series 2008 Bond, the deposit to the Reserve Account shall be sufficient to cause the balance in the Reserve Account to equal the Reserve Requirement in respect of the Series 2005 Bond and the principal of the Series 2008 Bond so advanced. The City shall keep, perform and observe each and every one of its covenants and undertakings set forth in the Resolution for the benefit of the registered owners from time to time of the Series 2008 Bond.

ARTICLE X TAX MATTERS

Section 10.1 Use of Project. The 2008 Project will be owned and operated by the City and available for use by members of the general public on a substantially equal basis. The City shall not enter into any lease, use or other agreement with any non-governmental person relating to the use of the 2008 Project or the System or security for the payment of the Series 2008 Bond which might cause the Series 2008 Bond to be considered a "private activity bond" or "private loan bond" within the meaning of Section 141 of the Code.

Section 10.2 General Covenant. The City covenants and agrees with the owners from time to time of the Series 2008 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 Series 2008 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 Series 2008 Bond will not become includable in gross income for federal income tax purposes under the Code and the Regulations.

Section 10.3 Arbitrage Certification. The Mayor and the City Clerk, being the officers of the City charged with the responsibility for issuing the Series 2008 Bond pursuant to the 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 Series 2008 Bond, it is reasonably expected that the proceeds of the Series 2008 Bond will be used in a manner that would not cause the Series 2008 Bond to be an "arbitrage bond" within the meaning of Section 148 of the Code and the Regulations.

Section 10.4 Arbitrage Rebate. The City acknowledges that the Series 2008 Bond is 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 Series 2008

Bond from gross income for federal income tax purposes, unless the Series 2008 Bond qualify for the exception from the rebate requirement under Section 148(f)(4)(B) of the Code and no "gross proceeds" of the Series 2008 Bond (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 City Administrator is hereby authorized and directed to execute a Rebate Certificate, substantially in the form of the Rebate Certificate currently on file in the office of the City Clerk of Council, 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 10.5 Information Reporting. The City shall file with the Secretary of the Treasury, not later than November 15, 2008, a statement concerning the Series 2008 Bond containing the information required by Section 149(e) of the Code.

ARTICLE XI MISCELLANEOUS

Section 11.1 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
P. O. Box 201601
Helena, Montana 59620-1601
Attn: Conservation and Resource
Development Division

Trustee: U.S. Bank National Association
c/o Corporate Trust Services
Two Union Square
601 Union Street, Suite 2120
Seattle, Washington 98101

City: City of Billings
P.O. Box 1178
Billings, Montana 59103
Attention: City Clerk

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 11.2 Binding Effect. This Supplemental Resolution shall inure to the benefit of and shall be binding upon the DNRC, the City and their respective successors and assigns.

Section 11.3 Severability. If any provision of this Supplemental Resolution shall be determined to be unenforceable at any time, it shall not affect any other provision of the Resolution or the enforceability of that provision at any other time.

Section 11.4 Amendments. This Supplemental Resolution may not be effectively amended without the written consent of the DNRC.

Section 11.5 Applicable Law. This Supplemental Resolution shall be governed by and construed in accordance with the internal laws of the State.

Section 11.6 Captions; References to Sections. The captions in this Supplemental Resolution are for convenience only and do not define or limit the scope or intent of any provisions or Sections of this Supplemental Resolution.

Section 11.7 No Liability of Individual Officers, Directors or Trustees. No recourse under or upon any obligation, covenant or agreement contained in this Supplemental 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 City, 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 City is hereby expressly waived and released by the City and by the DNRC as a condition of and in consideration for the adoption of this Resolution and the making of the Loan.

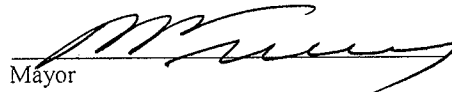
Section 11.8 Payments Due on Holidays. If the date for making any payment or the last date for performance of any act or the exercise of any right, as provided in this Supplemental Resolution or the Series 2008 Bond, shall not be Business Day, such payments may be made or act performed or right exercised on the next succeeding Business Day with the same force and effect as if done on the nominal date provided in this Supplemental Resolution or the Series 2008 Bond.

Section 11.9 Right of Others To Perform City's Covenants. In the event the City 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 City and make advances for that purpose. No such performance or advance shall operate to release the City 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 (10.00%) per annum from the date of the advance until repaid. The DNRC and the provider of any Collateral Document shall have the right to enter the 2008 Project or the facility or facilities of which the 2008 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 11.10 Authentication of Transcript. The officers of the City 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 Series 2008 Bond and such other certificates and affidavits as may be required to show the right, power and authority of the City to issue the Series 2008 Bond, and all statements contained in and shown by such instruments, including any heretofore furnished, shall constitute representations of the City as to the truth of the statements of fact purported to be shown thereby.

Section 11.11 Effective Date. This Supplemental Resolution shall take effect immediately.

PASSED AND ADOPTED by the City Council of the City on this 28th day of July, 2008.


Mayor

Attest: Cari Martin
City Clerk



APPENDIX A

Description of the 2008 Project

The 2008 Project consists of replacing existing aged Briarwood wastewater treatment facility by extending sanitary sewer main from the City's existing sewer infrastructure in South Billings Boulevard, thereby integrating the extension into the City's wastewater system.

APPENDIX B

[Form of the Series 2008 Bond]

UNITED STATES OF AMERICA
STATE OF MONTANA
YELLOWSTONE COUNTY

CITY OF BILLINGS

SEWER SYSTEM REVENUE BOND
(DNRC REVOLVING LOAN PROGRAM), SERIES 2008

No. R-1

\$7,400,000

FOR VALUE RECEIVED, the City of Billings, Montana (the "Borrower"), a duly organized municipal corporation 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 the Revenue Bond Account of its Sewer System Fund, the principal sum equal to the sum of the amounts entered on Schedule A attached hereto under "Total Amount Advanced," with interest on each such amount from the date such amount is advanced hereunder at the rate of 2.00% 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 rate of seventy-five hundredths of one percent (0.75%) and one percent (1.00%), respectively, per annum. Interest and Administrative Expense Surcharge and Loan Loss Reserve Surcharge shall be payable in semiannual installments payable on each January 1 and July 1 (each a "Loan Repayment Date") commencing January 1, 2009. Principal shall be payable on the dates set forth in Schedule B hereto. Each installment shall be in the amount set forth opposite its due date in Schedule B attached hereto under "Total Loan Payment." The portion of each such payment consisting of principal, the portion consisting of interest and the portion consisting of Administrative Expense Surcharge and Loan Loss Reserve Surcharge shall be as set forth in Schedule B hereto. Upon each disbursement of 2008 Loan amounts to the Borrower pursuant to the Resolution described below, the DNRC shall enter (or cause to be entered) the amount advanced on Schedule A under "Advances" and the total amount advanced under the Resolution (as hereinafter defined), including such disbursement, under "Total Amount Advanced." The DNRC shall prepare Schedule B and any revised Schedule B, or cause Schedule B and any revised Schedule B to be prepared, as provided in Section 5.1 of the Resolution. Schedule B shall be calculated and recalculated on a substantially level debt service basis assuming an interest rate of 3.75% per annum. 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 is one of an issue of Sewer System Revenue Bonds of the Borrower authorized to be issued in one or more series from time to time, and constitutes a series in the maximum authorized principal amount of \$7,400,000 (the "Series 2008 Bond"). This Series 2008 Bond is issued to finance all or a portion of the construction of certain improvements to the Sewer System of Borrower (the "System"), and to pay costs of issuance of the Series 2008 Bond. The Series 2008 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 7, Part 44, as amended, and ordinances and resolutions duly adopted by the governing body of the Borrower, including Montana Code Annotated, as amended, Title 7, Chapter 7, Parts 44 and 45, as amended, Resolution No. 05-18326 of the City adopted on August 22, 2005, as amended and supplemented by Resolution No. 08-18738 adopted on July 28, 2008 (collectively, the "Resolution"). The Series 2008 Bond is issuable only as a single, fully registered bond. The Series 2008 Bond is issued on a parity with the \$4,515,000 Sewer System Revenue Bond (DNRC Water Pollution Control State Revolving Loan Program), Series 2005 (the "Outstanding Bond").

Reference is made to the Resolution for a more complete statement of the terms and conditions upon which the Series 2008 Bond has been issued, the net revenues of the System pledged and appropriated for the