

and the Series 2009C Bond will not become includable in gross income for federal income tax purposes under the Code and the Regulations.

Arbitrage Certification. The Mayor and the City Clerk, being the officers of the Borrower charged with the responsibility for issuing the Series 2009B Bond and the Series 2009C 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 2009B Bond and the Series 2009C Bond, it is reasonably expected that the proceeds of the Series 2009B Bond and the Series 2009C Bond will be used in a manner that would not cause the Series 2009B Bond and the Series 2009C Bond to be an "arbitrage bond" within the meaning of Section 148 of the Code and the Regulations.

Arbitrage Rebate. The City acknowledges that the Series 2009B Bond and the Series 2009C Bond are subject to the rebate requirements of Section 148(f) of the Code. The City covenants and agrees to retain such records, make such determinations, file such reports and documents and pay such amounts at such times as are required under said Section 148(f) and applicable Treasury Regulations to preserve the exclusion of interest on the Series 2009B Bond and the Series 2009C Bond from gross income for federal income tax purposes, unless the Series 2009B Bond and the Series 2009C 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 2009B Bond and the Series 2009C 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 Mayor, the Financial Services Manager, and the City Clerk are hereby authorized and directed to execute a Rebate Certificate, substantially in the form to be prepared by Bond Counsel, and the City hereby covenants and agrees to observe and perform the covenants and agreements contained therein, unless amended or terminated in accordance with the provisions thereof.

Information Reporting. The Borrower shall file with the Secretary of the Treasury, not later than November 15, 2009, a statement concerning the Series 2009B Bond and the Series 2009C Bond containing the information required by Section 149(e) of the Code.

"Qualified Tax-Exempt Obligations." Pursuant to Section 265(b)(3)(B)(ii) of the Code, the Borrower hereby designates the Series 2009B Bond and the Series 2009C Bond as a "qualified tax-exempt obligation" for purposes of Section 265(b)(3) of the Code. The Borrower has not designated any obligations in 2009 other than its \$495,000 Special Improvement District No. 1384 Bonds, the Series 2009B Bond and the Series 2009C Bond under Section 265(b)(3). The Borrower hereby represents that it does not anticipate that obligations bearing interest not includable in gross income for purposes of federal income taxation under Section 103 of the Code (including refunding obligations as provided in Section 265(b)(3) of the Code and including "qualified 501(c)(3) bonds" but excluding other "private activity bonds," as defined in Sections 141(a) and 145(a) of the Code) will be issued by or on behalf of the Borrower and all "subordinate entities" of the Borrower in 2009 in an amount greater than \$30,000,000.

## CONTINUING DISCLOSURE

The Borrower understands and acknowledges that the DNRC is acquiring the Series 2009 Bonds under the Program pursuant to which the State issues from time to time State Bonds to provide funds therefor. The Borrower covenants and agrees that, upon written request of the DNRC from time to time, the Borrower will promptly provide to the DNRC all information that the DNRC reasonably determines to be necessary or appropriate to offer and sell State Bonds or to provide continuing disclosure in respect of State Bonds, whether under Rule 15c2-12 (17 C.F.R. § 240.15c2-12) promulgated by the Securities and Exchange Council under the Securities Exchange Act of 1934, as amended, or otherwise. Such information shall include, among other things and if so requested, financial statements of the Borrower 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 Borrower, and, if for a fiscal year

and so requested by the DNRC, subject to an audit report and opinion of an accountant or government auditor, as permitted or required by the laws of the State). The Borrower will also provide, with any information so furnished to the DNRC, a certificate of the Mayor and the City Clerk of the Borrower 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.

## AMENDMENTS

Authorization. Pursuant to Article XV of the Original Resolution, the Borrower reserved the right to amend the Resolution upon notice to and with the consent of the holders of all outstanding Bonds affected thereby.

Consent of DNRC. The DNRC, which holds all of the outstanding Bonds, has consented in writing to the amendments of the provisions of the Original Resolution set forth herein.

Amendment of Section 1.1 of Original Resolution by Amending Existing Terms. Section 1.1 of the Original Resolution is hereby amended by amending the following term in the Original Resolution to read as follows in its entirety and such definition shall amend and supersede the definition of such terms given in the Original Resolution (underlining indicates additions; strike-through deletions):

“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, as amended or informed by ARRA.

Amendment of Section 1.1 of Original Resolution by Adding New Defined Terms. Section 1.1 of the Original Resolution is hereby amended by adding thereto the following defined term to read as follows in its entirety:

“Subordinate Lien Obligations” mean the Series 2009A Bond and any other subordinate lien obligations issued under Section 10.4 of the Original Resolution, as amended hereby.

Amendment of Section 6.7 of Original Resolution. Section 6.7 of the Original Resolution is hereby amended to read as follows in its entirety (underlining indicates additions; strike-through deletions):

“Section 6.7. Rate Covenant. While any Bonds are outstanding and unpaid, the rates, charges and rentals for all services and facilities furnished and made available by the System to the Borrower and its inhabitants, and to all customers within or without the boundaries of the Borrower, shall be reasonable and just, taking into consideration the cost and value of the System and the cost of maintaining and operating it them, and the amounts necessary for the payment of all Bonds and the interest accruing thereon, and the proper and necessary allowances for the depreciation of the System, and no free service shall be provided to any person or corporation. It is covenanted and agreed that the rates, charges and rentals to be charged to all recipients of sewer services shall be maintained and shall be revised, whenever and as often as may be necessary, according to schedules such that the revenues for each fiscal year will be at least sufficient to pay the current expenses of operation and maintenance as herein defined, to maintain the Operating Reserve herein established, and to produce ~~net revenues~~ Net Revenues during each fiscal year commencing with the fiscal year ending June 30, 2005 2010, not less than 125% of the maximum annual principal and interest payable on any outstanding Bonds in the current or any future fiscal year (assuming, if no DNRC Statement has been delivered by the date of such determination, that a DNRC Forgiveness Statement has been delivered) and to produce Surplus Net Revenues during each fiscal year commencing with the fiscal year in which the DNRC delivers a DNRC Noncompliance Statement in an amount at least sufficient to pay the principal of and interest on the Series 2009A Bond and the Series 2009B Bond as and when due. As of the date of this Resolution, for purposes of the calculation described in the immediately preceding sentence, principal of and interest on the Series 2009A Bond shall be disregarded and interest on the Series 2009B Bond is assumed to be 1.75%. However, in the event the DNRC delivers a DNRC Noncompliance Statement, the Borrower shall forthwith (and in any event no later than three months after the delivery of such DNRC Noncompliance Statement) cause the rates, charges and rentals charged to all

recipients of water services to be revised whenever and as often as may be necessary, according to schedules such that the revenues for each fiscal year will be at least sufficient to pay the Operating Expenses, to maintain the Operating Reserve herein established, to produce Net Revenues during each fiscal year commencing with the fiscal year ending June 30 of that fiscal year in which the DNRC shall have delivered such DNRC Noncompliance Statement, not less than 125% of the maximum annual principal and interest payable on any outstanding Bonds in the current or any future fiscal year, including, without limitation, the maximum annual principal and interest payable on the Series 2009B Bond calculated at 3.75% per annum, and to produce Surplus Net Revenues adequate to pay the principal of and interest on the Series 2009A Bond as and when due.

If at the close of any fiscal year the net revenues Net Revenues actually received during such year have been less than required hereby, the Borrower will forthwith prepare a schedule of altered rates, charges and rentals which are just and equitable and sufficient to produce Net Revenues and Surplus Net Revenues in such amount, and will do all things necessary to the end that such schedule will be placed in operation at the earliest possible date.

The establishment of the above ratio of Net Revenues available for the Revenue Bond Account and the provision for adequate Surplus Net Revenues in the event the Borrower's obligation to repay the principal of the Series 2009A Bond is not forgiven is are deemed necessary for the DNRC to make the Loan 2009 Loans to the Borrower upon terms most advantageous. The excess of the Net Revenues over the annual principal and interest and reserve requirements of the Series 2005 Bond Reserve Requirement and the Series 2008 Bond Reserve Requirement may be used as authorized in Article XI of this Resolution. The Series 2005 Bond, the Series 2008 Bond, the Series 2009B Bond and the Series 2009C Bond may be prepaid according to its their terms on any date, and in the estimation of the governing body of the Borrower any excess, prior to that date, of Net Revenues over principal and interest payments actually due and the balance required to be maintained in the Reserve Account, will be needed to pay or to provide reserves for payment of replacements, renewals and improvement costs, in order to provide adequate service for the present population and the increase thereof reasonably to be expected; and after that date, any excess not required for such purposes in the judgment of the governing body of the Borrower may be used to prepay the Series 2005 Bond, the Series 2008 Bond, or the Series 2009B Bond or the Series 2009C Bond and thereby reduce the interest cost thereon to the Borrower and to the persons served by the System."

Amendment of Section 10.3 of Original Resolution. Section 10.3 of the Original Resolution is hereby amended to read as follows in its entirety (underlining indicates additions; strike-through deletions):

"Section 10.3. Other Parity Bonds. The Borrower reserves the right to issue additional Bonds payable from the Revenue Bond Account of the Fund, on a parity as to both principal and interest with the Series 2005 Bond, the Series 2008 Bond, the Series 2009B Bond and the Series 2009C Bond, if the Net Revenues of the System for the last complete fiscal year preceding the date of issuance of such additional Bonds have equaled at least 125% of the maximum amount of principal and interest payable from said Revenue Bond Account in any subsequent fiscal year during the term of the outstanding Bonds (assuming, if no DNRC Statement has been delivered by the date of such determination, that a DNRC Forgiveness Statement has been delivered), on all Bonds then outstanding 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 additional Bonds shall be those shown by the financial reports caused to be prepared by the Borrower pursuant to Section 2.2(f), except that if the rates and charges for services provided by the System 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 or finally authorized to go into effect within 60 days thereafter 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 Net Revenues, the actual operation and maintenance cost plus any additional annual costs of operation and maintenance which the Consultant estimates will be incurred because of the improvement or extension of the 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 Borrower is then in default in any payment of principal of or interest on any outstanding Bonds payable therefrom or if there then exists any deficiency in the balances required by this Resolution to be maintained in any of the accounts of the Fund, which will not be cured or restored upon the issuance of the additional Bonds. In connection with the issuance of a series of additional Bonds, the Borrower shall cause amounts in the Reserve Account in the Revenue Bond Account to be increased, from the proceeds of the additional Bonds or from

surplus Net Revenues, to an amount equal to the Reserve Requirement during the term of the outstanding Bonds or so much thereof as will not cause the Borrower to violate the provisions of Section 12.2 11.5 hereof."

Amendment of Section 10.4 of Original Resolution. Section 10.4 of the Original Resolution is hereby amended to read as follows in its entirety (underlining indicates additions; strike-through indicates deletions):

"Section 10.4 Subordinate Bonds. Nothing in this Resolution shall preclude the Borrower from issuing additional ~~Bonds~~ bonds or notes which are expressly made a charge on only the Surplus Net Revenues of the System subordinate to the pledge of Net Revenues to the Revenue Bond Account (such additional bonds, the "Subordinate Obligations"), ~~or designating Water Debt that is subordinate to the Bonds as Subordinate Obligations; provided, however, no obligations may be issued pursuant to this Section 10.4 if a deficiency exists in the Revenue Bond Account or the Reserve Account which is not to be restored by the issuance of the Subordinate Obligations. Any Surplus Net Revenues segregated to pay such Subordinate Obligations in the Fund are subject to the prior appropriation thereof to the Revenue Bond Account or the Reserve Account if necessary to meet the requirements thereof.~~"

Effect of Amendments. Except as amended by this Article XII, the provisions of the Original Resolution as now in effect remain unamended and the Original Resolution, as amended hereby, continues in full force and effect.

## MISCELLANEOUS

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  
1420 Fifth Avenue, 7<sup>th</sup> Floor  
Seattle, Washington 98101

Borrower: City of Billings  
PO Box 1178  
Billings, Montana 59103  
Attn: 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.

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

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.

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

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

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.

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, the DEQ or the Trustee, either directly or through the DNRC, the DEQ or the Trustee, or against any officer, or member of the governing body or employee of the Borrower, past, present or future, as an individual so long as such individual was acting in good faith. Any and all personal liability of every nature, whether at common law or in equity, or by statute or by constitution or otherwise, of any such officer or member of the governing body or employee of the DNRC, the Trustee or the Borrower is hereby expressly waived and released by the Borrower and by the DNRC as a condition of and in consideration for the adoption of this Supplemental Resolution and the making of the Loan.

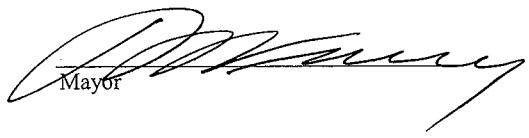
Payments Due on Holidays. If the date for making any payment or the last date for performance of any act or the exercise of any right, as provided in this Supplemental Resolution or the Series 2009 Bonds, shall not be Business Day, such payments may be made or act performed or right exercised on the 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 2009 Bonds.

Right of Others To Perform Borrower's Covenants. In the event the Borrower shall fail to make any payment or perform any act required to be performed hereunder, then and in each such case the DNRC or the provider of any Collateral Document may (but shall not be obligated to) remedy such default for the account of the Borrower and make advances for that purpose. No such performance or advance shall operate to release the Borrower from any such default and any sums so advanced by the DNRC or the provider of any Collateral Document shall be paid immediately to the party making such advance and shall bear interest at the rate of ten percent (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 2009 Project or the facility or facilities of which the 2009 Project is a part or any other facility which is a part of the System in order to effectuate the purposes of this Section.

Authentication of Transcript. The officers of the Borrower are hereby authorized and directed to furnish to the DNRC and to Bond Counsel certified copies of all proceedings relating to the issuance of the Series 2009 Bonds and such other certificates and affidavits as may be required to show the right, power and authority of the Borrower to issue the Series 2009 Bonds, and all statements contained in and shown by such instruments, including any heretofore furnished, shall constitute representations of the Borrower as to the truth of the statements of fact purported to be shown thereby.

Date. This Supplemental Resolution shall take effect immediately.

Adopted by the City Council of the City of Billings, Montana, on this 27th day of July, 2009.



\_\_\_\_\_  
Mayor

Attest: Cari Martin  
City Clerk

(SEAL)



## APPENDIX A

### Description of the 2009 Project

[The 2009 Project generally consists of replacing existing sewer mains with new PVC water mains as well as replacing approximately 41 manholes.]

#### Estimated 2009 Project Budget

<u>2009 Project Costs</u>	<u>Series 2009A Bond</u>	<u>Series 2009B Bond</u>	<u>Series 2009C Bond</u>	<u>Total</u>
Preliminary Engineering	\$16,750.00			\$16,750.00
Engineering/Arch. Design		\$100,000.00	\$585,977.00	\$685,977.00
Construction Engineering Services			\$612,547.00	\$612,547.00
Construction	\$373,950.00	\$232,427.00	\$3,033,693.00	\$3,640,070.00
Contingency			\$759,477.00	\$759,477.00
Audit Fees			\$5,000.00	\$5,000.00
Loan Reserves		\$21,873.00	\$385,306.00	\$407,179.00
Bond Counsel		\$5,000.00	\$5,000.00	\$10,000.00
<b>TOTALS</b>	<b>\$390,700.00</b>	<b>\$359,300.00</b>	<b>\$5,387,000.00</b>	<b>\$6,137,000.00</b>

#### Green Infrastructure

Of the amount shown above for construction of and improvements to be included in the 2009 Project, the Borrower estimates that \$750,000 of the proceeds of the Series 2009A Bond and of the Series 2009B Bond will be applied to the costs of Green Infrastructure.

APPENDIX B-1

[Form of the Series 2009A Bond]

UNITED STATES OF AMERICA  
STATE OF MONTANA  
COUNTY OF YELLOWSTONE

**CITY OF BILLINGS**

SUBORDINATE LIEN SEWER SYSTEM REVENUE BOND  
(DNRC WATER POLLUTION CONTROL STATE REVOLVING LOAN PROGRAM)  
TAXABLE SERIES 2009A

R-1

\$390,700

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 hereby promises to pay to the Department of Natural Resources and Conservation of the State of Montana (the "DNRC"), or its registered assigns, solely out of available Surplus Net Revenues in the Replacement and Depreciation Account or the Surplus 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 two percent (2.00%) per annum on the unpaid balance until paid. In addition, the Borrower shall pay an Administrative Expense Surcharge and Loan Loss Reserve Surcharge on the outstanding principal amount of this Bond from the date of each advance of principal at the rate of seventy-five hundredths of one percent (0.75%) and one percent (1.00%) per annum, respectively. 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 with the Loan Repayment Date that is the first to occur following delivery by the DNRC to the Borrower of a statement that the Borrower's obligation to repay the principal amount of the 2009A Loan is not forgiven, all as described in the Resolution (as hereinafter defined). 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 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 the portion consisting of Loan Loss Reserve Surcharge shall be as set forth in Schedule B attached hereto. Upon each disbursement of 2009A 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 supplemental resolution authorizing this Bond. Schedule B shall be calculated and recalculated on a level debt service basis assuming an interest rate of three and seventy-five hundredths percent (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.

NOTWITHSTANDING THE FOREGOING PROVISIONS OF THIS BOND, IN THE EVENT THAT THE BORROWER TIMELY DELIVERS AN ARRA CERTIFICATE AND REQUEST (AS DEFINED IN THE RESOLUTION) IN FORM AND SUBSTANCE SATISFACTORY TO THE DNRC AND THE DNRC IN RESPONSE THERETO SUPPLIES TO THE BORROWER A STATEMENT THAT THE BORROWER'S OBLIGATION TO REPAY PRINCIPAL ADVANCED UNDER THIS BOND IS FORGIVEN, THEN THEREUPON INTEREST SHALL BE DEEMED TO ACCRUE ON THE PRINCIPAL OF THIS SERIES 2009A BOND FROM THE DATE OF EACH ADVANCE AT THE RATE OF ZERO PERCENT (0.00%) PER ANNUM AND THE BORROWER'S OBLIGATION TO REPAY PRINCIPAL ADVANCED HEREUNDER

SHALL BE FORGIVEN, AND THE BORROWER SHALL HAVE NO OBLIGATION TO REPAY THE DNRC OR ITS REGISTERED ASSIGNS ANY AMOUNTS ADVANCED HEREUNDER OR INTEREST OR ANY SURCHARGE THEREON. THIS BOND SHALL THEREUPON BE MARKED "CANCELLED" AND RETURNED BY THE HOLDER TO THE BORROWER, AND THIS BOND SHALL NO LONGER CONSTITUTE AN OBLIGATION OF THE BORROWER OR OF THE SYSTEM (AS HEREINAFTER DEFINED).

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 \$390,700 (the "Series 2009A Bond"). The Series 2009A Bond is issued to finance a portion of the costs of the construction of certain improvements to the sewer system of the Borrower (the "System") and to pay costs of issuance of the Series 2009A Bond. The Series 2009A 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 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, as further amended and supplemented by Resolution No. 09-18851, adopted July 27, 2009 (as so amended and supplemented, the "Resolution"). The Series 2009A Bond is issuable only as a single, fully registered bond. The Series 2009A Bond is issued as a Subordinate Lien Obligation payable out of available Surplus Net Revenues in the Replacement and Depreciation Account or the Surplus Account in the Fund of the Borrower. The Borrower has issued its outstanding Sewer System Revenue Bond (DNRC Water Pollution Control State Revolving Loan Program), Series 2005 (the "Series 2005 Bond"), Sewer System Revenue Bond (DNRC Water Pollution Control State Revolving Loan Program), Series 2008 (the "Series 2008 Bond"), and is issuing simultaneously herewith its Sewer System Revenue Bond (DNRC Water Pollution Control State Revolving Loan Program), Series 2009B (the "Series 2009B Bond") and its Sewer System Revenue Bond (DNRC Water Pollution Control State Revolving Loan Program), Series 2009C (the "Series 2009C Bond"). The Series 2005 Bond, the Series 2008 Bond, the Series 2009B Bond, and the Series 2009C Bond are parity lien bonds payable from the Revenue Bond Account in the Fund of the Borrower. Following the 2009B First Advance, principal amounts of this Series 2009A Bond are advanced until all of the principal of this Series 2009A Bond is advanced and then the remaining amounts of principal of the Series 2009B Bond or the principal amounts of the Series 2009C Bond are advanced. Terms used with initial capital letters but not defined herein have the meanings given to them in the Resolution.

Reference is made to the Resolution for a more complete statement of the terms and conditions upon which the Series 2009A Bond has been issued, the conditions upon which the Resolution may be amended, the rights, duties and obligations of the Borrower, and the rights of the owners of the Series 2009A Bond.

The Borrower may prepay the principal of the Series 2009A Bond only if (i) it obtains the prior written consent of the DNRC thereto, and (ii) no Loan Repayment or Administrative Expense Surcharge or Loan Loss Reserve Surcharge is then delinquent. Any prepayment permitted by the DNRC must be accompanied by payment of accrued interest and Administrative Expense Surcharge and Loan Loss Reserve Surcharge to the date of prepayment on the amount of principal prepaid. If the Series 2009A Bond is prepaid in part, such prepayments shall be applied to principal payments in inverse order of maturity.

This Series 2009A Bond, including interest and any premium for the redemption thereof, are payable solely from the Surplus Net Revenues available for the payment hereof and do not constitute a debt of the Borrower within the meaning of any constitutional or statutory limitation or provision.

The Borrower may deem and treat the person in whose name this Series 2009A Bond is registered as the absolute owner hereof, whether this Series 2009A Bond is overdue or not, for the purpose of receiving payment and for all other purposes, and the Borrower shall not be affected by any notice to the contrary. The Series 2009A Bond may be transferred as hereinafter provided.

The Borrower understands that the principal amounts of the 2009A Loan and the 2009B Loan have been sized based on the understanding and expectation that the 2009 Project costs at least \$6,137,000 and that the Borrower will request disbursement of the full amount of the 2009A Loan and 2009B Loan. Notwithstanding any provision to the contrary herein, the Borrower acknowledges and agrees that in the event there is any Undisbursed Committed Amount, then the DNRC reserves the right in its sole and complete discretion to

reallocate loan amounts as between the 2009A Loan and 2009B Loan on the basis of the amounts of the 2009A Loan and the 2009B Loan that the Borrower would have been entitled to had the 2009 Loans initially equaled the Committed Amount less the Undisbursed Committed Amount. The reallocation between the 2009A Loan and 2009B Loan will reflect the same percentage of the total amount of the 2009 Loans as initially used. Upon making such reallocation, the DNRC shall deliver to the Borrower a replacement Series 2009A Bond and a replacement Series 2009B Bond reflecting adjusted principal amounts, which bonds shall supersede and render of no effect the original bonds and be payable on the same dates as described in the original bonds, but in an adjusted amount owing on each Payment Date because of the reallocation of principal amounts. The Borrower shall execute and deliver the replacement Series 2009A Bond and the replacement Series 2009B Bond to the DNRC within thirty (30)-days after delivery of such bonds to the Borrower by the DNRC. Contemporaneous with the delivery of the replacement Series 2009A Bond and the replacement Series 2009B Bond to the DNRC by the Borrower, the Borrower shall determine whether the Net Revenues of the System total at least 125% of the maximum principal of and interest payable on the Bonds outstanding in any fiscal year, and, if they do not, the Borrower shall increase its rates and charges to satisfy the rate covenant set forth in Section 6.7 of the Resolution within three (3) months after the date of delivery of the replacement Series 2009A Bond and the replacement Series 2009B Bond to the DNRC by the Borrower.

IT IS HEREBY CERTIFIED, RECITED, COVENANTED AND AGREED that the Borrower will forthwith construct and complete the improvements to the System hereinabove described; that it will prescribe and collect reasonable rates and charges for all services and facilities afforded by the System, including all additions thereto and replacements and improvements thereof, and has created a special Sewer System Fund into which the gross revenues of the System will be paid, and a separate and special Replacement and Depreciation Account and Surplus Account in that Fund, into which will be paid, subject to the prior lien thereon of the Revenue Bond Account and the Reserve Account, Surplus Net Revenues; that the rates and charges for the System will from time to time be made and kept sufficient, to provide gross income and revenues adequate to pay promptly the reasonable and current expenses of operating and maintaining the System, to produce in each fiscal year Net Revenues in excess of such current expenses, equal to at least 125% of the maximum amount of principal and interest payable from the Revenue Bond Account in any subsequent fiscal year and to produce in each fiscal year adequate Surplus Net Revenues to pay the principal of and interest on the Series 2009A Bond as and when due; that additional bonds issued on a parity with the Series 2005 Bond, the Series 2008 Bond, the Series 2009B Bond, and the Series 2009C Bond (such bonds, collectively with the Series 2005 Bond, the Series 2008 Bond, the Series 2009B Bond, and the Series 2009C Bond, the "Bonds") and refunding Bonds may be issued and made payable from the Revenue Bond Account on a parity with the Series 2005 Bond, the Series 2008 Bond, the Series 2009B Bond, and the Series 2009C Bond, and other parity Bonds, upon certain conditions set forth in the Resolution, but no obligation will be otherwise incurred and made payable from the Net Revenues of the System, unless the lien thereof shall be expressly made subordinate to the lien of the Series 2005 Bond, the Series 2008 Bond, the Series 2009B Bond, the Series 2009C Bond, and additional parity Bonds on such Net Revenues (such as is the case with this Series 2009A Bond); that all provisions for the security of the holder of this Series 2009A Bond set forth in the Resolution will be punctually and faithfully performed as therein stipulated; that all acts, conditions and things required by the Constitution and laws of the State of Montana and the ordinances and resolutions of the Borrower to be done, to exist, to happen and to be performed in order to make this Series 2009A Bond a valid and binding special obligation of the Borrower according to its terms have been done, do exist, have happened and have been performed in regular and due form, time and manner as so required; and that this Series 2009A Bond and the interest hereon are payable solely out of available Surplus Net Revenues in the Replacement and Depreciation Account or the Surplus Account of the Fund and do not constitute a debt of the Borrower within the meaning of any constitutional or statutory limitation or provision and the issuance of the Series 2009A Bond does not cause either the general or the special indebtedness of the Borrower to exceed any constitutional or statutory limitation.

IN WITNESS WHEREOF, the City of Billings, Montana, by its governing body, has caused this Bond to be executed by the signatures of its Mayor and City Clerk, and has caused the official seal of the Borrower to be affixed hereto, and has caused this Bond to be dated as of the 27th day of July, 2009.

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Mayor

(SEAL)

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City Clerk

## REGISTRATION AND TRANSFER

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

### REGISTER

The ownership of the unpaid Principal Balance of this Bond and the interest accruing thereon is registered on the books of the City of Billings, Montana in the name of the registered holder appearing on the first page hereof or as last noted below:

<u>Date of Registration</u>	<u>Name and Address of Registered Holder</u>	<u>Signature of City Clerk</u>
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\_\_\_\_\_, 2009      Department of Natural Resources and Conservation \_\_\_\_\_  
1625 Eleventh Avenue \_\_\_\_\_  
Heleña, MT 59620 \_\_\_\_\_

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

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

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

FORM OF ASSIGNMENT

For value received, the undersigned hereby sells, assigns and transfers unto \_\_\_\_\_  
\_\_\_\_\_ the within Bond and does hereby irrevocably  
constitute and appoint \_\_\_\_\_ attorney to transfer the  
Bond on the books kept for the registration thereof, with full power of substitution in the premises.

Dated: \_\_\_\_\_

Notice: The assignor's signature to this assignment must correspond with the name as it appears upon the  
face of the within Bond in every particular, without alteration or any change whatsoever.

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

SCHEDULE B

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Administrative Expense Surcharge</u>	<u>Loan Loss Reserve Surcharge</u>	<u>Total Loan Payment</u>
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APPENDIX B-2

[Form of the Series 2009B Bond]

UNITED STATES OF AMERICA  
STATE OF MONTANA  
COUNTY OF YELLOWSTONE

CITY OF BILLINGS

SEWER SYSTEM REVENUE BOND  
(DNRC WATER POLLUTION CONTROL STATE REVOLVING LOAN PROGRAM)  
SERIES 2009B

R-1 \$359,300

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 two percent (2.00%) per annum on the unpaid balance until paid. In addition, the Borrower shall pay an Administrative Expense Surcharge and Loan Loss Reserve Surcharge on the outstanding principal amount of this Bond from the date of each advance of principal at the rate of seventy-five hundredths of one percent (0.75%) and one percent (1.00%) per annum, respectively. Interest and Administrative 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 with the Loan Repayment Date that is the first to occur following delivery by the DNRC of a DNRC Noncompliance Statement (as defined in the Resolution described below) and taking into account payments, if any, made on each Loan Repayment Date prior to the deliver of such statement, all as described in the Resolution. 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, the portion consisting of Administrative Expense Surcharge and the portion consisting of Loan Loss Reserve Surcharge shall be as set forth in Schedule B hereto. Upon each disbursement of 2009B Loan amounts to the Borrower pursuant to the Resolution, 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 level debt service basis assuming an interest rate of three and seventy-five hundredths percent (3.75%) per annum. Past-due payments of principal, interest, Administrative Expense Surcharge and Loan Loss Reserve Surcharge shall bear interest at the rate of ten percent (10.00%) per annum, until paid. Interest, 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.

NOTWITHSTANDING ANY PROVISION TO THE CONTRARY HEREIN, IN THE EVENT THE BORROWER TIMELY DELIVERS AN ARRA CERTIFICATE AND REQUEST (AS DEFINED IN THE RESOLUTION) IN FORM AND SUBSTANCE SATISFACTORY TO THE DNRC AND THE DNRC IN RESPONSE THERETO SUPPLIES TO THE BORROWER A DNRC FORGIVENESS STATEMENT AS SET FORTH IN THE RESOLUTION, THEN AMOUNTS ADVANCED HEREUNDER FROM AND AFTER THE 2009B FIRST ADVANCE (AS DEFINED IN THE RESOLUTION) SHALL BEAR INTEREST AT A RATE OF ONE AND SEVENTY-FIVE HUNDREDTHS PERCENT (1.75%), AND THE BORROWER SHALL HAVE NO OBLIGATION TO PAY ANY ADMINISTRATIVE EXPENSE SURCHARGE OR ANY LOAN LOSS RESERVE SURCHARGE. If the DNRC delivers a DNRC Forgiveness Statement, the Trustee shall revise

Schedule B to the Series 2009B Bond reflecting a debt service schedule with payments at 1.75% per annum in accordance with the Resolution, and the Trustee shall send a copy of such revised Schedule B to the Borrower within one month after the delivery of such statement.

In the event any Loan Repayment Date occurs prior to the delivery by the DNRC of a DNRC Statement (as defined in the Resolution), the amount of interest, Administrative Expense Surcharge and Loan Loss Reserve Surcharge payable on each such Loan Repayment Date will be calculated as if the DNRC has previously delivered to the Borrower DNRC Forgiveness Statement.

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 \$359,300 (the "Series 2009B Bond"), issued to finance a portion of the costs of construction of certain improvements to the sewer system of the Borrower (the "System") and to pay costs of issuance of the Series 2009B Bond. The Series 2009B 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 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, as further amended and supplemented by Resolution No. 09-18851, adopted July 27, 2009 (as so amended and supplemented, the "Resolution"). The Series 2009B Bond is issuable only as a single, fully registered bond. The Series 2009B Bond is issued on a parity and is equally and ratably secured by the Net Revenues of the System with the Borrower's outstanding Sewer System Revenue Bond (DNRC Water Pollution Control State Revolving Loan Program), Series 2005 (the "Series 2005 Bond"), its Sewer System Revenue Bond (DNRC Water Pollution Control State Revolving Loan Program), Series 2008 (the "Series 2008 Bond"), and its Sewer System Revenue Bond (DNRC Water Pollution Control State Revolving Loan Program), Series 2009C (the "Series 2009C Bond"), which is being issued simultaneously herewith. The Borrower is also issuing simultaneously herewith its Subordinate Lien Sewer System Revenue Bond (DNRC Water Pollution Control State Revolving Loan Program), Taxable Series 2009A (the "Series 2009A Bond"). The 2009B First Advance has been advanced at Closing. Following the 2009B First Advance, the remaining principal amounts of this Series 2009B Bond are advanced immediately after the full advance of the principal amount of the Series 2009A Bond. Terms used with initial capital letters but not defined herein have the meanings given to them in the Resolution.

Reference is made to the Resolution for a more complete statement of the terms and conditions upon which the Series 2009B Bond has been issued, the Net Revenues of the System pledged and appropriated for the payment and security thereof, the conditions upon which additional bonds may be issued under the Resolution and made payable from such Net Revenues on a parity with the Series 2005 Bond, the Series 2008 Bond, the Series 2009B Bond, and the Series 2009C Bond (collectively, the "Bonds") or otherwise, the conditions upon which the Resolution may be amended, the rights, duties and obligations of the Borrower, and the rights of the owners of the Series 2009B Bond.

The Borrower may prepay the principal of the Series 2009B Bond only if (i) it obtains the prior written consent of the DNRC thereto, and (ii) no Loan Repayment 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, if any, to the date of prepayment on the amount of principal prepaid. If the Series 2009B Bond is prepaid in part, such prepayments shall be applied to principal payments in inverse order of maturity.

The Bonds, including interest and any premium for the redemption thereof, are payable solely from the Net Revenues pledged for the payment thereof and do not constitute a debt of the Borrower within the meaning of any constitutional, statutory or charter limitation or provision.

The Borrower may deem and treat the person in whose name this Series 2009B Bond is registered as the absolute owner hereof, whether this Series 2009B Bond is overdue or not, for the purpose of receiving payment and for all other purposes, and the Borrower shall not be affected by any notice to the contrary. The Series 2009B Bond may be transferred as hereinafter provided.

This Series 2009B Bond has been designated by the Borrower as a "qualified tax-exempt obligation" pursuant to Section 265 of the Internal Revenue Code of 1986, as amended.

The Borrower understands that the principal amounts of the 2009A Loan and the 2009B Loan have been sized based on the understanding and expectation that the 2009 Project costs at least \$6,137,000 and that the Borrower will request disbursement of the full amount of the 2009A Loan and 2009B Loan. Notwithstanding any provision to the contrary herein, the Borrower acknowledges and agrees that in the event there is any Undisbursed Committed Amount, then the DNRC reserves the right in its sole and complete discretion to reallocate loan amounts as between the 2009A Loan and 2009B Loan on the basis of the amounts of the 2009A Loan and the 2009B Loan that the Borrower would have been entitled to had the 2009 Loans initially equaled the Committed Amount less the Undisbursed Committed Amount. The reallocation between the 2009A Loan and 2009B Loan will reflect the same percentage of the total amount of the 2009 Loans as initially used. Upon making such reallocation, the DNRC shall deliver to the Borrower a replacement Series 2009A Bond and a replacement Series 2009B Bond reflecting adjusted principal amounts, which bonds shall supersede and render of no effect the original bonds and be payable on the same dates as described in the original bonds, but in an adjusted amount owing on each Payment Date because of the reallocation of principal amounts. The Borrower shall execute and deliver the replacement Series 2009A Bond and the replacement Series 2009B Bond to the DNRC within thirty (30) days after delivery of such bonds to the Borrower by the DNRC. Contemporaneous with the delivery of the replacement Series 2009A Bond and the replacement Series 2009B Bond to the DNRC by the Borrower, the Borrower shall determine whether the Net Revenues of the System total at least 125% of the maximum principal of and interest payable on the Bonds outstanding in any fiscal year, and, if they do not, the Borrower shall increase its rates and charges to satisfy the rate covenant set forth in Section 6.7 of the Resolution within three (3) months after the date of delivery of the replacement Series 2009A Bond and the replacement Series 2009B Bond to the DNRC by the Borrower.

IT IS HEREBY CERTIFIED, RECITED, COVENANTED AND AGREED that the Borrower has duly authorized and will forthwith undertake the improvements to the System hereinabove described, has fixed and established and will collect reasonable rates and charges for the services and facilities afforded by the System, and has created a special Sewer System Fund into which the revenues of the System as defined in the Original Resolution (the "Revenues"), including all additions thereto and replacements and improvements thereof, will be paid, and a separate and special Revenue Bond Account in that fund, into which will be paid each month, Net Revenues of the System then on hand (the Revenues remaining after the payment of Operating Expenses (as defined in the Original Resolution) of the System), an amount equal to not less than the sum of one-sixth of the interest due within the next six months and one-twelfth of the principal due within the next twelve months with respect to all outstanding Bonds payable from that account, and a Reserve Account in that fund into which shall be paid additional Net Revenues sufficient to establish and maintain a reserve therein equal to, as of the date of calculation, the Reserve Requirement (as defined in the Resolution); that the Revenue Bond Account and the Reserve Account will be used only to pay the principal of, premium, if any, and interest on the Bonds issued pursuant to the authority herein recited; that the rates and charges for the System will from time to time be made and kept sufficient to provide Net Revenues for each fiscal year at least equal to 125% of the maximum principal and interest payable from the Revenue Bond Account in any subsequent fiscal year (calculated assuming the DNRC has delivered a DNRC Forgiveness Statement), to maintain the balance in the Reserve Account at the Reserve Requirement, to pay promptly the reasonable and current expenses of operating and maintaining the System, and to provide reserves for the repair and replacement of the System; that additional Bonds and refunding Bonds may be issued and made payable from the Revenue Bond Account on a parity with the Series 2005 Bond, the Series 2008 Bond, the Series 2009B Bond, and the Series 2009C Bond upon certain conditions set forth in the Resolution, but no obligation will be otherwise incurred and made payable from the Net Revenues unless the lien thereof shall be expressly made subordinate to the lien of the Series 2005 Bond, the Series 2008 Bond, the Series 2009B Bond, and the Series 2009C Bond, and other parity Bonds on such Net Revenues and such obligations are payable only from Surplus Net Revenues (as is the case with the Series 2009A Bond); that all provisions for the security of this Series 2009B Bond set forth in the Resolution will be punctually and faithfully performed as therein stipulated; that all acts, conditions and things required by the Constitution and laws of the State of Montana and the ordinances and resolutions of the Borrower to be done, to exist, to happen and to be performed in order to make this Series 2009B Bond a valid and binding special obligation of the Borrower according to its terms have been done, do exist, have happened and have been performed as so required; and that this Series 2009B Bond and the premium, if any, and interest hereon are payable solely from the Net Revenues of the System pledged and appropriated to the Revenue Bond Account and do not constitute a

debt of the Borrower within the meaning of any constitutional, statutory or charter limitation or provision and the issuance of the Series 2009B Bond does not cause either the general or the special indebtedness of the Borrower to exceed any constitutional, statutory or charter limitation.

IN WITNESS WHEREOF, the City of Billings, Montana, by its governing body, has caused this Bond to be executed by the signatures of its Mayor and City Clerk, and has caused the official seal of the Borrower to be affixed hereto, and has caused this Bond to be dated as of the 27th day of July, 2009.

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Mayor

(SEAL)

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City Clerk

## REGISTRATION AND TRANSFER

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

<u>Date of Registration</u>	<u>Name and Address of Registered Holder</u>	<u>Signature of City Clerk</u>
, 2009	<u>Department of Natural Resources and Conservation</u> <u>1625 Eleventh Avenue</u> Helena, MT 59620	

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

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

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

FORM OF ASSIGNMENT

For value received, the undersigned hereby sells, assigns and transfers unto \_\_\_\_\_

the within Bond and does hereby irrevocably

constitute and appoint \_\_\_\_\_ attorney to transfer the

Bond on the books kept for the registration thereof, with full power of substitution in the premises.

Dated: \_\_\_\_\_

Notice: The assignor's signature to this assignment must correspond with the name as it appears upon the face of the within Bond in every particular, without alteration or any change whatsoever.

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

SCHEDULE B

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	Administrative <u>Expense Surcharge</u>	Loan Loss Reserve <u>Surcharge</u>	Total Loan <u>Payment</u>
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APPENDIX B-3

[Form of the Series 2009C Bond]

UNITED STATES OF AMERICA  
STATE OF MONTANA  
COUNTY OF YELLOWSTONE

**CITY OF BILLINGS**

WATER SYSTEM REVENUE BOND  
(DNRC DRINKING WATER STATE REVOLVING LOAN PROGRAM)  
SERIES 2009C

R-1

\$5,387,000

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 two percent (2.00%) per annum on the unpaid balance until paid. As described more particularly in the Resolution (defined below), the 2009C First Advance will be made, if at all, following the advance of the full principal amount of the Series 2009A Bond and the Series 2009B Bond (as such terms are defined below or in the Resolution), and upon the making of the 2009C First Advance, the DNRC shall enter the applicable amount on Schedule A hereto and attach the applicable Schedule B hereto. In addition, the Borrower shall pay an Administrative Expense Surcharge and a Loan Loss Reserve Surcharge on the outstanding principal amount of this Bond at the rates of seventy-five hundredths of one percent (0.75%) and one percent (1.00%), respectively, per annum. Interest and Administrative Expense Surcharge and Loan Loss Reserve Surcharge shall be payable in semiannual installments payable on each January 1 and July 1 (each a "Loan Repayment Date") commencing on the date first set forth in the column headed "Date" or "Payment Date" on Schedule B attached hereto. 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, the portion consisting of Administrative Expense Surcharge, and the portion consisting of Loan Loss Reserve Surcharge shall be as set forth in Schedule B hereto. Upon each disbursement of 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 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 \$5,387,000 (the "Series 2009C Bond"). The Series 2009C Bond is issued to finance a portion of the costs of the construction of certain improvements to the sewer system of the Borrower (the "System"), to fund deposits to the Reserve Account, and to pay costs of issuance of the Series 2009C Bond. The Series 2009C 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 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, as further amended and supplemented by Resolution No.09-18851, adopted July 27, 2009 (as so amended and supplemented, the "Resolution"). The Series 2009C Bond is issuable only as a single, fully registered bond. The Series 2009C Bond is issued on a parity with the Borrower's outstanding Sewer System Revenue Bond (DNRC Water Pollution Control State Revolving Loan Program), Series 2005 (the "Series 2005 Bond"), its Sewer System Revenue Bond (DNRC Water Pollution Control State Revolving Loan Program), Series 2008 (the "Series 2008 Bond"), and its Sewer System Revenue Bond (DNRC Water Pollution Control State Revolving Loan Program), Series 2009B (the "Series 2009B Bond"), which is being issued simultaneously herewith. The Borrower is also issuing simultaneously herewith its Subordinate Lien Sewer System Revenue Bond (DNRC Water Pollution Control State Revolving Loan Program), Taxable Series 2009A (the "Series 2009A Bond"). Principal amounts of this Series 2009C Bond are advanced only after the full principal amount of the Series 2009A Bond and the Series 2009B Bond have been advanced. Terms used with initial capital letters but not defined herein have the meanings given them in the Resolution.

Reference is made to the Resolution for a more complete statement of the terms and conditions upon which the Series 2009C Bond has been issued, the Net Revenues of the System pledged and appropriated for the payment and security thereof, the conditions upon which additional bonds may be issued under the Resolution and made payable from such Net Revenues on a parity with the Series 2005 Bond, the Series 2008 Bond, the Series 2009B Bond, and Series 2009C Bond (collectively, the "Bonds") or otherwise, the conditions upon which the Resolution may be amended, the rights, duties and obligations of the Borrower, and the rights of the owners of the Series 2009C Bond.

The Borrower may prepay the principal of the Series 2009C Bond only if (i) it obtains the prior written consent of the DNRC thereto, and (ii) no Loan Repayment or Administrative Expense Surcharge or Loan Loss Reserve Surcharge is then delinquent. Any prepayment permitted by the DNRC must be accompanied by payment of accrued interest, and Administrative Expense Surcharge and Loan Loss Reserve Surcharge to the date of prepayment on the amount of principal prepaid. If the Series 2009C Bond is prepaid in part, such prepayments shall be applied to principal payments in inverse order of maturity.

The Series 2009C Bond, including interest and any premium for the redemption thereof, are payable solely from the Net Revenues pledged for the payment thereof and do not constitute a debt of the Borrower within the meaning of any constitutional or statutory limitation or provision.

The Borrower may deem and treat the person in whose name this Series 2009C Bond is registered as the absolute owner hereof, whether this Series 2009C Bond is overdue or not, for the purpose of receiving payment and for all other purposes, and the Borrower shall not be affected by any notice to the contrary. The Series 2009C Bond may be transferred as hereinafter provided.

IT IS HEREBY CERTIFIED, RECITED, COVENANTED AND AGREED that the Borrower will forthwith construct and complete the improvements to the System hereinabove described; that it will prescribe and collect reasonable rates and charges for all services and facilities afforded by the System, including all additions thereto and replacements and improvements thereof, and has created a special Sewer System Fund into which the gross revenues of the System will be paid, and a separate and special Revenue Bond Account in that Fund, into which will be paid each month, from and as a first and prior lien on the Net Revenues of the System then on hand, an amount equal to not less than the sum of one-sixth of the interest to become due within the next six months and one-twelfth of the principal to become due within the next twelve months with respect to all Bonds payable from that Account; that the Borrower has created a Reserve Account in such fund into which shall be paid additional Net Revenues, after required credits to the Revenue Bond Account sufficient to maintain a reserve therein equal to the maximum amount of principal and interest payable in any subsequent fiscal year on all such Bonds; that the Revenue Bond Account will be used only to pay the principal of, premium, if any, and interest on the Bonds and any other additional Bonds issued pursuant to the Resolution on a parity therewith; that the rates and charges for the System will from time to time be made and kept sufficient, to provide gross income and revenues adequate to pay promptly the reasonable and current expenses of operating and maintaining the System and to produce in each fiscal year Net Revenues in excess of such current expenses, equal to 125% of the maximum amount of principal and interest payable from the Revenue Bond Account in any subsequent fiscal year; that additional Bonds and refunding Bonds may be issued and made payable from the Revenue Bond

Account on a parity with the Series 2005 Bond, the Series 2008 Bond, the Series 2009B Bond, Series 2009C Bond, and other parity Bonds, upon certain conditions set forth in the Resolution, but no obligation will be otherwise incurred and made payable from the Net Revenues of the System, unless the lien thereof shall be expressly made subordinate to the lien of the Series 2005 Bond, the Series 2008 Bond, the Series 2009B Bond, Series 2009C Bond, and additional parity Bonds on such Net Revenues; that all provisions for the security of the holder of this Series 2009C Bond set forth in the Resolution will be punctually and faithfully performed as therein stipulated; that all acts, conditions and things required by the Constitution and laws of the State of Montana and the ordinances and resolutions of the Borrower to be done, to exist, to happen and to be performed in order to make this Series 2009C Bond a valid and binding special obligation of the Borrower according to its terms have been done, do exist, have happened and have been performed in regular and due form, time and manner as so required; and that this Series 2009C Bond and the interest hereon are payable solely from the Net Revenues of the System pledged and appropriated to the Revenue Bond Account and do not constitute a debt of the Borrower within the meaning of any constitutional or statutory limitation or provision and the issuance of the Series 2009C Bond does not cause either the general or the special indebtedness of the Borrower to exceed any constitutional or statutory limitation.

IN WITNESS WHEREOF, the City of Billings, Montana, by its governing body, has caused this Bond to be executed by the signatures of the Mayor and the City Clerk, and has caused the official seal of the Borrower to be affixed hereto, and has caused this Bond to be dated as of the 27<sup>th</sup> day of July, 2009.

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Mayor

(SEAL)

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City Clerk

## REGISTRATION AND TRANSFER

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

### REGISTER

The ownership of the unpaid Principal Balance of this Bond and the interest accruing thereon is registered on the books of the City of Billings, Montana in the name of the registered holder appearing on the first page hereof or as last noted below:

<u>Date of Registration</u>	<u>Name and Address of Registered Holder</u>	<u>Signature of City Clerk</u>
, 2009	<u>Department of Natural Resources and Conservation</u> <u>1625 Eleventh Avenue</u> <u>Helena, MT 59620</u>	

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

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

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

### FORM OF ASSIGNMENT

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

By: \_\_\_\_\_  
(Authorized Signature)

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

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

SCHEDULE B

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Administrative Expense Surcharge</u>	<u>Loan Loss Reserve Surcharge</u>	<u>Total Loan Payment</u>
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## APPENDIX D

\$6,137,000  
Sewer System Revenue Bonds  
(DNRC Water Pollution Control State Revolving Loan Program)  
Consisting Of  
\$390,700 Subordinate Lien Taxable Series 2009A Bond  
\$359,300 Series 2009B Bond  
And  
\$5,387,000 Series 2009C Bond

### ARRA CERTIFICATE AND REQUEST

We, \_\_\_\_\_ and \_\_\_\_\_, hereby certify that we are on the date hereof the duly qualified and acting Mayor and City Clerk, respectively, of the City of Billings, Montana (the "Borrower"), and that:

1. Pursuant to 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, as further amended and supplemented by Resolution No. \_\_\_, duly adopted by the City Council of the Borrower on July 27, 2009, entitled "Resolution Relating to \$6,137,000 Sewer System Revenue Bonds (DNRC Water Pollution Control State Revolving Loan Program), Consisting of \$390,700 Series 2009A Bond, \$359,300 Series 2009B Bond, and \$5,387,000 Series 2009C Bond; Authorizing the Issuance and Fixing the Terms and Conditions Thereof" (as so amended and supplemented, the "Resolution"), the Borrower issued its Subordinate Lien Sewer System Revenue Bond (DNRC Water Pollution Control State Revolving Loan Program), Taxable Series 2009A, dated, as originally issued, as of \_\_\_\_\_, 2009, in the maximum aggregate principal amount of \$390,700 (the "Series 2009A Bond"), its Sewer System Revenue Bond (DNRC Water Pollution Control State Revolving Loan Program), Series 2009B, dated, as originally issued, as of \_\_\_\_\_, 2009, in the maximum aggregate principal amount of \$359,300 (the "Series 2009B Bond"), and its Sewer System Revenue Bond (DNRC Water Pollution Control State Revolving Loan Program), Series 2009C, dated, as originally issued, as of \_\_\_\_\_, 2009, in the maximum aggregate principal amount of \$5,387,000 (the "Series 2009C Bond"). The Series 2009A Bond and the Series 2009B Bond are referred to herein collectively as the "ARRA Bonds." The Borrower has reviewed the Resolution, including, without limitation, Articles II and III thereof, and the definitions relating thereto. The Borrower acknowledges and agrees that the ARRA Bonds evidence loans made to the Borrower from the DNRC from funds made available to the DNRC under the American Recovery and Reinvestment Act of 2009, Pub. L. No. 111-5 (2009) ("ARRA"), and that this Certificate is being relied upon by the DNRC for ensuring compliance with ARRA requirements applicable to the Borrower, the DNRC, and the 2009 Project (as hereinafter defined). Capitalized terms used herein without definition shall have the meanings given them in the Resolution.

2. The ARRA Bonds were issued to finance a portion of the costs of construction and installation of various improvements to the System, generally described as the 2009 Project (the "2009 Project") in the Resolution. Construction of the 2009 Project has complied with all federal and state standards, including, without limitation, EPA regulations and standards and the requirements of ARRA. The 2009 Project is expected to be completed and placed in service on or about \_\_\_\_\_, 20\_\_.

3. Costs of the 2009 Project in the amount of \$ \_\_\_\_\_ have been paid as of the date of delivery of this Certificate. The Borrower hereby waives its right to any remaining 2009A Committed Amount or 2009B Committed Amount not advanced or to be advanced upon delivery hereof, and acknowledges that the DNRC has reserved the right to reallocate amounts of the Series 2009A Bond and Series 2009B Bond and deliver a replacement Series 2009A Bond and Series 2009B Bond, which shall each be a binding obligation of the City, as described more particularly in the Resolution. The Borrower specifically confirms and agrees that any remaining amounts of the 2009 Loans to be lent to the Borrower, if any, shall be evidenced by the Series 2009C Bond.

4. As of the date hereof, the Borrower has spent the following amounts in connection with the 2009 Project and costs related thereto:

APPENDIX C  
ADDITIONAL REPRESENTATIONS AND COVENANTS

None

Preliminary Engineering	\$
Engineering/Arch. Design	
Construction Engineering Services	
Construction	
Contingency	
Audit Fees	
Loan Reserves	
Bond Counsel	
<b>TOTAL</b>	<hr/>
	\$

Of such amounts, \$750,000 were paid from advances of proceeds of the ARRA Bonds, \$5,387,000 from the Series 2009C Bond, and \$ \_\_\_\_\_ were paid from funds the Borrower had on hand and available therefor. In addition, as of the date hereof, and \$ \_\_\_\_\_ of the proceeds of the ARRA Bonds have been applied to Green Infrastructure. The Borrower certifies that proceeds of the ARRA Bonds, once made available to the Borrower, were applied to costs of the 2009 Project before other funds available to the Borrower.

5. The Trustee has delivered to the Borrower a copy of Schedule B to be attached to the Series 2009A Bond and Schedule B to be attached to the Series 2009B Bond, each of which reflects the amortization of all advances made or to be made on the date hereof of proceeds of the Series 2009A Bond and the Series 2009B Bond, respectively (i.e., \$ \_\_\_\_\_ in respect of the Series 2009A Bond (the sum of the amounts of the Series 2009A Bond applied to pay costs of the 2009 Project or costs of issuance of the Series 2009 Bonds) and \$ \_\_\_\_\_ in respect of the Series 2009B Bond (the sum of the amounts of the Series 2009B Bond applied to pay costs of the 2009 Project or costs of issuance of the Series 2009 Bonds or deposited in the Reserve Account as described in paragraph 6 hereof)), as required under Section 7.08(a) of the Indenture. The Borrower hereby acknowledges and agrees that each Schedule B has been calculated in accordance with the provisions of the Resolution and the Indenture, and that each of the Series 2009A Bond and the Series 2009B Bond, with said Schedule B attached thereto, has been duly issued pursuant to the Resolution and is a valid and binding obligation of the Borrower in accordance with its terms and the terms of the Resolution; provided, however, if the DNRC issues a statement to the Borrower to the effect that the Borrower's obligation to repay the principal amount of the Series 2009A Bond is forgiven in response to the Borrower's request made in paragraph 10 below, the Borrower's obligation to repay the principal of the Series 2009A Bond and interest and surcharges thereon will be forgiven.

6. Pursuant to the Resolution, the Borrower has established a Reserve Account in the Fund (the "Reserve Account") to secure its outstanding Sewer System Revenue Bond (DNRC Water Pollution Control State Revolving Fund, Series 2005 (the "Series 2005 Bond"), its Series 2009B Bond, and its Series 2009C Bond (the Series 2005 Bond, Series 2009B Bond, and Series 2009C Bond, collectively, the "Bonds"). The amount on deposit therein on the date hereof totals \$ \_\_\_\_\_, of which \$ \_\_\_\_\_ secures the Series 2005 Bond and \$ \_\_\_\_\_ secures the Series 2009B Bond and Series 2009C Bond. The amount in the Reserve Account is equal to the lesser of: (i) 10 percent of the original principal amount of all series of parity Bonds now outstanding (i.e., \$ \_\_\_\_\_), or (ii) the maximum amount of principal and interest payable on the parity Bonds in the current or any future fiscal year (i.e. \$ \_\_\_\_\_), based on the amortization of the Series 2009B Bond in accordance with Schedule B thereto.

7. The representations of the Borrower contained in Articles II and III of the Resolution are true and complete as of the date hereof as if made on this date, except to the extent that the Borrower has specifically advised the DEQ and the DNRC otherwise in writing.

8. No default in any covenant or agreement on the part of the Borrower contained in the Resolution has occurred and is continuing.

9. The Borrower is delivering this Certificate to the DNRC, in part, to ensure compliance with ARRA. The Borrower certifies that all iron, steel and manufactured goods (as defined by 2 CRF part 176) used or to be used in the 2009 Project have been and will be produced in the United States and the Borrower accepts the responsibility of compliance with this requirement. The Borrower further certifies that all laborers and mechanics employed by contractors and subcontractors on the 2009 Project have been and will be paid wages at

rates not less than those prevailing on projects of a character similar in the locality as determined by the United States Secretary of Labor in accordance with subchapter IV of chapter 31 of title 40, United States Code.

10. The Borrower acknowledges and agrees that this Certificate completed in form satisfactory to the DNRC must be executed and delivered to the DNRC by the date that is 30 days after receipt of the form of this Certificate from the DNRC. By submitting this Certificate, the Borrower requests that the DNRC forgive the obligation of the Borrower to repay the principal of the Series 2009A Bond, together with interest and surcharges thereon. The Borrower acknowledges and agrees that (i) the forgiveness of principal of and interest and surcharges on the Series 2009A Bond by the DNRC is contingent on the timely delivery of this Certificate by the Borrower in satisfactory form as determined in the DNRC's sole and complete discretion, (ii) the DNRC has no obligation to grant such forgiveness; (iii) if the DNRC delivers to the Borrower a statement that the obligation of the Borrower to repay the principal of the Series 2009A Bond is not forgiven, the obligation of the Borrower to repay the principal of the Series 2009A Bond plus interest and Administrative Expense Surcharge and Loan Loss Reserve Surcharge thereon shall continue in full force and effect until the principal of the Series 2009A Bond advanced and interest, Administrative Expense Surcharge, and Loan Loss Reserve Surcharge thereon are paid in full, as set forth in Schedule B delivered pursuant to paragraph 5 above, and as provided in the Series 2009A Bond and the Resolution; and (iv) the Borrower shall, as necessary, within the 3-month period specified in the Resolution, adjust its rates and charges to produce Net Revenues required by the rate covenant in the Resolution.

WITNESS our hands on behalf of the Borrower and the seal of the Borrower as of this 27th day of July, 2009.

CITY OF BILLINGS, MONTANA

(SEAL)

By \_\_\_\_\_  
Mayor

By \_\_\_\_\_  
City Clerk