

Section 5.5 Limited Liability. All payments of principal of and interest on the 2010 Loans and other payment obligations of the Borrower hereunder and under the Series 2010 Bonds shall be special, limited obligations of the Borrower payable, with respect to the Series 2010B Bond, solely out of the Net Revenues or, with respect to the Series 201A Bond solely out of Surplus Net Revenues, and shall not, except at the option of the Borrower and as permitted by law, be payable out of any other revenues of the Borrower. The obligations of the Borrower under the Resolution and the Series 2010 Bonds shall never constitute an indebtedness of the Borrower within the meaning of any state constitutional provision or statutory or charter 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 may not be used to pay principal of or interest on the Series 2010 Bonds, and no funds or property of the Borrower other than the Net Revenues or, as appropriate, Surplus Net Revenues may be required to be used to pay principal of or interest on the Series 2010 Bonds.

ARTICLE VI

INDEMNIFICATION OF DNRC AND DEQ

The Borrower shall, to the extent permitted by law, indemnify and save harmless the DNRC and the 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 Borrower or its employees, officers, agents, contractors, subcontractors, or consultants in connection with or with regard or in any way relating to the condition, use, possession, conduct, management, planning, design, acquisition, construction, installation or financing of the 2010 Project. The Borrower shall also, to the extent permitted by law, 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 Borrower shall, upon notice from an Indemnified Party, defend such proceeding on behalf of the Indemnified Party.

ARTICLE VII

ASSIGNMENT

Section 7.1 Assignment by Borrower. The Borrower may not assign its rights and obligations under the Resolution or the Series 2010 Bonds.

Section 7.2 Assignment by DNRC. The DNRC will pledge its rights under and interest in the Resolution, the Series 2010 Bonds and the Collateral Documents (except to the extent otherwise provided in the Indenture) as security for the payment of the State Bonds and may further assign such interests to the extent permitted by the Indenture, without the consent of the Borrower.

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 2010 BONDS

Section 8.1 Net Revenues Available. The Borrower 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 Series 2010B Bond the Net Revenues (and in respect of the Series 2010A Bond, if necessary, the Surplus 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 2010B Bond are expected to be more than sufficient to pay the principal and interest when due on the Bonds, and to create and maintain reasonable reserves therefor and to provide an adequate allowance for replacement and depreciation, as prescribed herein. For purposes of the foregoing statement, principal of and interest on the 2009A Loan and the 2010A Loan are disregarded. The Borrower acknowledges and agrees that if the DNRC delivers a Noncompliance Statement to the Borrower as provided in Section 5.1.2 as determined in the sole and complete discretion of the DNRC, then principal and interest and surcharges will become due and owing on the 2010A Loan evidenced by the Series 2010A Bond as provided in Section 5.1 and the Borrower shall thereupon, and no later than three months after delivery of such a statement, to the extent required by Section 6.7 of the Original Resolution, as implemented as described in Article XII of this Supplemental Resolution, adjust its schedule of fees, rates, and charges applicable to the System to cause Net Revenues and Surplus Net Revenues to be produced in an amount at least equal to that required by the Resolution.

Section 8.2 Issuance and Sale of the Series 2010 Bonds. The Council has investigated the facts necessary and hereby finds, determines and declares it to be necessary and desirable for the Borrower to issue the Series 2010 Bonds to evidence the 2010 Loans. The Series 2010 Bonds are issued to the DNRC without public sale pursuant to Montana Code Annotated, Section 7-7-4433(2)(a).

Section 8.3 Terms. The Series 2010A Bond and the Series 2010B Bond shall be in the maximum principal amount equal to the original 2010A Committed Amount and 2010B Committed Amount, respectively, shall each 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 2010A Loan and 2010B Loan, respectively. The principal of and interest on the Series 2010B Bond, and, if applicable, the principal of and interest on the Series 2010A Bond and any Administrative Expense Surcharge and Loan Loss Reserve Surcharge shall be payable on the same dates on which Loan Repayments are payable. Advances of principal of the Series 2010A Bond or Series 2010B Bond shall be deemed made

when advances of the 2010A Loan or 2010B Loan, respectively, are made under Section 4.1, and such advances shall be payable in accordance with Schedule B to the Series 2010B Bond, and, if applicable, the Series 2010A Bond, as the case may be, as it may be revised by the DNRC from time to time in accordance with Section 5.1. The Series 2010A Bond is a Subordinate Obligation payable only from the Surplus Net Revenues available in the Water System Fund. The Series 2010B Bond is a Bond.

The Borrower may prepay the Series 2010 Bonds, in whole or in part, only upon the terms and conditions under which it can prepay the 2010 Loans under Section 5.3.

Section 8.4 Negotiability, Transfer and Registration. The Series 2010 Bonds 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 2010 Bonds shall be payable to the DNRC at the Office of the Department of Natural Resources and Conservation, 1625 Eleventh Avenue, Helena, Montana 59620-1601 or such other place as may be designated by the DNRC in writing and delivered to the Borrower. The Series 2010 Bonds shall be negotiable, subject to the provisions for registration and transfer contained in this Section. No transfer of the Series 2010 Bonds 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 2010 Bonds, and (2) the Financial Services Manager of the Borrower (or successors, the "Registrar"), as Bond Registrar, has duly noted the transfer on the Series 2010 Bonds and recorded the transfer on the registration books of the Registrar. The Registrar may, prior to noting and recording the transfer, require appropriate proof of the transferor's authority and the genuineness of the transferor's signature. The Borrower shall be entitled to deem and treat the Person in whose name the Series 2010 Bonds is registered as the absolute owner of the Series 2010 Bonds for all purposes, notwithstanding any notice to the contrary, and all payments to the registered holder shall be valid and effectual to satisfy and discharge the Borrower's liability upon such Series 2010 Bond to the extent of the sum or sums so paid.

Section 8.5 Execution and Delivery. The Series 2010 Bonds shall be executed on behalf of the Borrower by the manual signatures of the Mayor, the Financial Services Manager, and the City Clerk. Any or all of such signatures may be affixed at or prior to the date of delivery of the Series 2010 Bonds. The Series 2010 Bonds shall be sealed with the corporate seal of the Borrower. In the event that any of the officers who shall have signed the Series 2010 Bonds shall cease to be officers of the Borrower before the Series 2010 Bonds are issued or delivered, their signatures shall remain binding upon the Borrower. Conversely, the Series 2010 Bonds may be signed by an authorized official who did not hold such office on the date of adoption of this Supplemental Resolution. The Series 2010 Bonds shall be delivered to the DNRC, or its attorney or legal representative.

Section 8.6 Form. The Series 2010A Bond shall be prepared in substantially the form attached as Appendix B-1 and the Series 2010B Bond shall be prepared in substantially the form attached as Appendix B-2.

Section 8.7 2010 Acquisition and Construction Account. The 2010 Acquisition and Construction Account (the "Acquisition and Construction Account") is hereby created as a separate account within the Water System Fund and shall be used only to pay as incurred and

allowed, costs which under accepted accounting practice are capital costs of the 2010 Project and of such future reconstructions, improvements, betterments or extensions of the System as may be authorized in accordance with law, including but not limited to payments due for work and materials performed and delivered under construction contracts, architectural, engineering, inspection, supervision, fiscal and legal expenses, the cost of lands and easements, reimbursement of any advances made from other Borrower funds, and all other expenses incurred in connection with the acquisition, construction and financing of any such undertaking and the issuance of the Series 2010 Bonds. To the Acquisition and Construction Account shall be credited as received the portion of the proceeds of Series 2010 Bonds for costs of the 2010 Project and for costs of issuance of the Series 2010 Bonds and any other funds appropriated by the Borrower to the Acquisition and Construction Account for improvements to the System, and all income received from the investment of the Acquisition and Construction Account.

ARTICLE IX

SECURITY FOR THE SERIES 2010 BONDS

The Series 2010B Bond is issued as an additional Bond under Section 10.3 of the Original Resolution, and shall, with the Series 2009B Bond, Series 2009C Bond, and any other additional Bonds issued under the provisions of Article X 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 Water System Fund, without preference or priority, all as provided in the Resolution, and secured by the Reserve Account, as further provided in Section 11.5 of the Original Resolution and in the following sentence. Upon advancement of principal of the Series 2010B Bond, the Financial Services Manager of the Borrower shall transfer from proceeds of the Series 2010B 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 each advance of the Series 2010B 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 2010B Bond so advanced. The Series 2010A Bond is a Subordinate Obligation issued under Section 10.4 of the Original Resolution and payable from the Surplus Net Revenues that are available after required credits to the Operating Account, the Revenue Bond Account, and the Reserve Account. No payment of principal or interest shall be made on any Subordinate Obligation, including the Series 2010A Bond, if the City is then in default in the payment of principal of or interest on any Bond or if there is a deficiency in the Operating Account or the Revenue Bond Account or the balance in the Reserve Account is less than the Reserve Requirement. In the event the principal of and interest and Administrative Expense Surcharge and Loan Loss Reserve Surcharge become payable under the Series 2010A Bond, the Borrower shall cause rates and charges to be increased to produce Net Revenues at least equal to the amount required under Section 6.7 of the Original Resolution, as implemented as described in Article XII of this Supplemental Resolution, within three (3) months following delivery of a Noncompliance Statement. The Borrower 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 holders from time to time of the Series 2010 Bonds.

ARTICLE X

TAX MATTERS

Section 10.1 Use of 2010 Project. The 2010 Project and the System will be owned and operated by the Borrower and available for use by members of the general public on a substantially equal basis. The Borrower shall not enter into any lease, use or other agreement with any non-governmental person relating to the use of the 2010 Project or the System or security for the payment of the Series 2010B Bond which might cause the Series 2010B 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 Borrower covenants and agrees with the owners from time to time of the Series 2010B 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 2010B 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 2010B 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, Financial Services Manager, and City Clerk, being the officers of the Borrower charged with the responsibility for issuing the Series 2010B Bond pursuant to this Supplemental 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 2010B Bond, it is reasonably expected that the proceeds of the Series 2010B Bond will be used in a manner that would not cause the Series 2010B 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 2010B 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 2010B Bond from gross income for federal income tax purposes, unless the Series 2010B Bond qualifies for the exception from the rebate requirement under Section 148(f)(4)(B) of the Code and no “gross proceeds” of the Series 2010B 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.

Section 10.5 Information Reporting. The Borrower shall file with the Secretary of the Treasury, not later than November 15, 2010, a statement concerning the Series 2010B Bond containing the information required by Section 149(e) of the Code.

Section 10.6 “Qualified Tax-Exempt Obligations.” Pursuant to Section 265(b)(3)(B)(ii) of the Code, the Borrower hereby designates the Series 2010B 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 2010, other than its \$182,000 Special Improvement District No. 1389 Bonds and the Series 2010B 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 2010 in an amount greater than \$30,000,000.

ARTICLE XI

CONTINUING DISCLOSURE

The Borrower understands and acknowledges that the DNRC is acquiring the Series 2010 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 Commission under the Securities Exchange Act of 1934, as amended, or otherwise. Such information shall include, among other things and if so requested, financial statements of the 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 Financial Services Manager 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.

ARTICLE XII

IMPLEMENTATION OF SECTION 6.7 OF ORIGINAL RESOLUTION

For purposes of the calculation described in Section 6.7 of the Original Resolution, as of the date of this Supplemental Resolution, principal of and interest on the Series 2010A Bond shall initially be disregarded and interest on the Series 2010B Bond is calculated at 3.75% per annum. However, in the event the DNRC delivers a Noncompliance Statement, the Borrower shall forthwith (and in any event no later than three (3) months after the delivery of such 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 established in the Resolution, and 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 Noncompliance Statement, not less than 125% of the maximum annual principal and interest payable on the 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, the Series 2009C Bond and Series 2010B 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 and Series 2010A Bond as and when due.

The establishment of the 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 2010A Bond is not forgiven are deemed necessary for the DNRC to make the 2010 Loans to the Borrower upon terms most advantageous. The excess of the Net Revenues over the annual principal and interest and Reserve Requirement may be used as authorized in Article XI of the Original Resolution. The Series 2010B Bond may be prepaid according to its 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 2010B Bond and thereby reduce the interest cost thereon to the Borrower and to the persons served by the System.

The Series 2010A Bond is a Subordinate Lien Obligation issued under Section 10.4 of the Original Resolution. In the event the principal of and interest and Administrative Expense Surcharge and Loan Loss Reserve Surcharge become payable under the Series 2010A Bond, the Borrower shall cause rates and charges to be increased to produce Net Revenues at least equal to the amount required under Section 6.7 of the Original Resolution.

ARTICLE XIII

MISCELLANEOUS

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

DNRC: Department of Natural Resources and Conservation
1625 Eleventh Avenue
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, 7th Floor
Seattle, Washington 98101
Attn: Corporate Trust Department

Borrower: City of Billings
PO Box 1178
Billings, Montana 59103
Attn: Financial Services Manager

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

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

Section 13.3 Severability. If any provision of this 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 13.4 Amendments. This Supplemental Resolution may not be effectively amended without the written consent of the DNRC.

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

Section 13.6 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. References to Articles and Sections are to Articles and Sections of this Supplemental Resolution, unless the context otherwise requires.

Section 13.7 No Liability of Individual Officers, Directors or Trustees. No recourse under or upon any obligation, covenant or agreement contained in this 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.

Section 13.8 Payments Due on Holidays. If the date for making any payment or the last date for performance of any act or the exercise of any right, as provided in this Supplemental Resolution or the Series 2010 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 2010 Bonds.

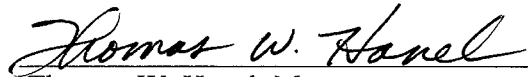
Section 13.9 Right of Others To Perform Borrower's Covenants. In the event the Borrower shall fail to make any payment or perform any act required to be performed hereunder, then and in each such case the DNRC or the provider of any Collateral Document may (but shall not be obligated to) remedy such default for the account of the Borrower and make advances for that purpose. No such performance or advance shall operate to release the Borrower from any such default and any sums so advanced by the DNRC or the provider of any Collateral Document shall be paid immediately to the party making such advance and shall bear interest at the rate of ten percent (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 2010 Project or the facility or facilities of which the 2010 Project is a part or any other facility which is a part of the System in order to effectuate the purposes of this Section.

Section 13.10 Authentication of Transcript. The officers of the Borrower are hereby authorized and directed to furnish to the DNRC and to Bond Counsel certified copies of all proceedings relating to the issuance of the Series 2010 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 2010 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.

Section 13.11 Supersedure. This Supplemental Resolution supersedes and renders of no further force or effect Resolution No. 10-18940, adopted by the City Council of the City on May 24, 2010. All actions taken by the Borrower or officers of the Borrower under Resolution No. 10-18940 are hereby ratified, confirmed and approved and are valid and effective as though this Supplemental Resolution had been in effect as of the day of such actions.

Section 13.12 Effective Date. This Supplemental Resolution shall take effect immediately.

Adopted by the City Council of the City of Billings, Montana, on this 12th day of July,
2010.


Thomas W. Hanel, Mayor

Attest: 
Cari Martin, City Clerk

(SEAL)



APPENDIX A

Description of the 2010 Project

The 2010 Project g generally consists of designing, engineering, and replacing existing water lines and valves and related improvements.

Estimated 2010 Project Budget

| 2010 Project Costs | Series <u>2010A Bond</u> | Series <u>2010B Bond</u> | <u>Borrower</u> <u>Funds</u> | <u>Total</u> |
|-----------------------------------|-----------------------------|-----------------------------|---------------------------------|--------------|
| Preliminary Engineering | | | \$9,200 | \$9,200 |
| Engineering/Arch. Design | | | 436,143 | 436,143 |
| Construction Engineering Services | | | 327,365 | 327,365 |
| Construction | \$500,000 | \$2,521,179 | | 3,021,179 |
| Contingency | | 278,821 | 57,529 | 336,350 |
| Audit Fees | | | 5,000 | 5,000 |
| Loan Reserves | | | 201,768 | 201,768 |
| Bond Counsel | | | 10,000 | 10,000 |
| TOTALS | \$500,000 | \$2,800,000 | \$1,047,005 | \$4,347,005 |

Green Infrastructure

Of the amount shown above for construction of and improvements to be included in the 2010 Project, the Borrower estimates that \$_____ of the proceeds of the Series 2010A Bond and \$_____ of the Series 2010B Bond will be applied to the costs of Green Infrastructure.

APPENDIX B-1

[Form of the Series 2010A Bond]

UNITED STATES OF AMERICA
STATE OF MONTANA
COUNTY OF YELLOWSTONE

CITY OF BILLINGS

SUBORDINATE LIEN WATER SYSTEM REVENUE BOND
(DNRC DRINKING WATER STATE REVOLVING LOAN PROGRAM)
TAXABLE SERIES 2010A

R-1

\$500,000

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 out of available Surplus Net Revenues in the Replacement and Depreciation Account or the Surplus Account of its Water System Fund (the "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, all subject to the effect of the immediately following paragraph. 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 2010A Loan is not forgiven and ending on the July 1, 2030, 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 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 attached hereto. Upon each disbursement of 2010A 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 the Bond, and the final Schedule B will reflect repayments under Section 5.1.5 of such 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 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 A COMPLIANCE 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 FORGIVENESS STATEMENT, THEN THEREUPON INTEREST SHALL BE DEEMED TO ACCRUE ON THE PRINCIPAL OF THIS SERIES 2010A 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). IN ADDITION, UNTIL THE DELIVERY OF A DETERMINATION STATEMENT BY THE DNRC TO THE BORROWER, THE OBLIGATION OF THE BORROWER TO REPAY THE OUTSTANDING PRINCIPAL AMOUNT HEREOF SHALL BE DEFERRED UNTIL THE LOAN REPAYMENT DATE FIRST OCCURRING AFTER DELIVERY OF A NONCOMPLIANCE STATEMENT AND INTEREST SHALL BE DEEMED TO ACCRUE ON THE PRINCIPAL OF THIS SERIES 2010A BOND FROM THE DATE OF EACH ADVANCE UNTIL DELIVERY OF SUCH A NONCOMPLIANCE STATEMENT AT THE RATE OF ZERO PERCENT (0.00%) PER ANNUM.

This Bond is one of an issue of Water 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 \$500,000 (the "Series 2010A Bond"). The Series 2010A Bond is issued to finance a portion of the costs of the construction of certain improvements to the water system of the Borrower (the "System") and to pay a portion of costs of issuance of the Series 2010 Bonds. The Series 2010A 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, Parts 44 and 45, as amended, and ordinances and resolutions duly adopted by the governing body of the Borrower, including Resolution 05-18329 (the "Original Resolution"), adopted by the City Council on September 12, 2005, as amended and supplemented by Resolution Nos. 09-18852, 09-18869, and _____, adopted July 27, 2009, September 14, 2009, and July 12, 2010, respectively (as so amended and supplemented, the "Resolution"). Terms used with initial capital letters but not defined herein have the meanings

given to them in the Resolution. The Series 2010A Bond is issuable only as a single, fully registered bond. The Series 2010A Bond is issued as a Subordinate Obligation payable out of available Surplus Net Revenues in the Replacement and Depreciation Account or the Surplus Account in the Fund of the Borrower. Simultaneously herewith, the Borrower is issuing its Water System Revenue Bond (DNRC Drinking Water State Revolving Loan Program), Series 2010B (the "Series 2010B Bond") which is payable from the Revenue Bond Account in the Fund of the Borrower on a parity with the Borrower's outstanding Water System Revenue Bond (DNRC Drinking Water State Revolving Loan Program), Series 2005 (the "Series 2005 Bond"), Water System Revenue Bond (DNRC Drinking Water State Revolving Loan Program), Series 2009B (the "Series 2009B Bond"), Water System Revenue Bond (DNRC Drinking Water State Revolving Loan Program), Series 2009C (the "Series 2009C Bond"), and Water System Revenue Bond (DNRC Drinking Water State Revolving Loan Program), Series 2009D (the "Series 2009D Bond") (all such Bonds, collectively, the "Outstanding Bonds"). Following the 2010B First Advance, principal amounts of this Series 2010A Bond are advanced until all of the principal of this Series 2010A Bond is advanced prior to advances under the Series 2010B Bond.

Reference is made to the Resolution for a more complete statement of the terms and conditions upon which the Series 2010A 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 2010A Bond.

The Borrower may prepay the principal of the Series 2010A Bond only if (i) a Determination Statement has been delivered, (ii) it obtains the prior written consent of the DNRC thereto, and (iii) 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 2010A Bond is prepaid in part, such prepayments shall be applied to principal payments in inverse order of maturity.

This Series 2010A 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 2010A Bond is registered as the absolute owner hereof, whether this Series 2010A 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 2010A 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 Water 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 Operating Account, 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 during each fiscal year Net Revenues not less than 125% of the maximum annual principal and interest payable on the outstanding Bonds in the current or any future 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 and the Series 2010A Bond as and when due; that additional bonds issued on a parity with the Outstanding Bonds and refunding Bonds may be issued and made payable from the Revenue Bond Account on a parity with the Outstanding Bonds 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 Outstanding Bonds and any additional parity Bonds on such Net Revenues (such as is the case with this Series 2010A Bond); that all provisions for the security of the holder of this Series 2010A 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 2010A 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 2010A 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 2010A 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, the Financial Services Manager, 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 ____ day of _____, 2010.

Mayor

Financial Services Manager

(SEAL)

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 Financial Services Manager as 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 Financial Services Manager</u> |
|---------------------------------|---|--|
| _____, 2010 | Department of Natural Resources and Conservation 1625 Eleventh Avenue Helena, MT 59620 | _____ |

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

The Financial Services Manager of the City, acting as Registrar, has transferred, on the books of the City, 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 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

[illegible]

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> |
|-------------|------------------|-----------------|---|--|-------------------------------|
|-------------|------------------|-----------------|---|--|-------------------------------|

APPENDIX B-2

[Form of the Series 2010B 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 2010B

R-1

\$2,800,000

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 Water 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 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%) per annum 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 January 1, 2011. 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 attached hereto. Upon each disbursement of 2010B 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 (as hereinafter defined). 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.

This Bond is one of an issue of Water 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 \$2,800,000 (the "Series 2010B Bond"). The Series 2010B Bond is issued to finance a portion of the costs of the construction of certain improvements to the water system of the Borrower (the "System"), to fund deposits to the Reserve Account, and to pay a portion of costs of issuance of the Series 2010 Bonds. The Series 2010B 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, Parts 44 and 45, as amended, and ordinances and resolutions duly adopted by the governing body of the Borrower, including Resolution No. 05-18329 (the "Original Resolution"), adopted by the City Council on September 12, 2005, as amended and supplemented by Resolution Nos. 09-18852, 09-18869, and _____, adopted July 27, 2009, September 14, 2009, and July 12, 2010, respectively (as so amended and supplemented, the "Resolution"). Terms used with initial capital letters but not defined herein have the meanings given them in the Resolution. The Series 2010B Bond is issuable only as a single, fully registered bond. The Series 2010B Bond is issued on a parity with the Borrower's outstanding Water System Revenue Bond (DNRC Drinking Water State Revolving Loan Program), Series 2005, Water System Revenue Bond (DNRC Drinking Water State Revolving Loan Program), Series 2009B, Water System Revenue Bond (DNRC Drinking Water State Revolving Loan Program), Series 2009C, and Water System Revenue Bond (DNRC Drinking Water State Revolving Loan Program), Series 2009D (all such Bonds, collectively, the "Outstanding Bonds"). The Borrower is also issuing simultaneously herewith its Subordinate Lien Water System Revenue Bond (DNRC Drinking Water State Revolving Loan Program), Taxable Series 2010A.

Reference is made to the Resolution for a more complete statement of the terms and conditions upon which the Series 2010B 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 Outstanding Bonds (collectively with the Series 2010B Bond, 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 2010B Bond.

The Borrower may prepay the principal of the Series 2010B Bond only if (i) a Determination Statement has been delivered, (ii) it obtains the prior written consent of the DNRC thereto, and (iii) 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 2010B Bond is prepaid in part, such prepayments shall be applied to principal payments in inverse order of maturity.

This Series 2010B 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 2010B Bond is registered as the absolute owner hereof, whether this Series 2010B 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 2010B Bond may be transferred as hereinafter provided.

This Series 2010B 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.

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 Water 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 during each fiscal year Net Revenues not less than 125% of the maximum annual principal and interest payable on the outstanding Bonds in the current or any future fiscal year; that additional bonds issued on a parity with the Outstanding Bonds and refunding Bonds may be issued and made payable from the Revenue Bond Account on a parity with the Outstanding Bonds 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 Outstanding Bonds and additional parity Bonds on such Net Revenues; that all provisions for the security of the holder of this Series 2010B 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 2010B 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 2010B 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 2010B 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, the Financial Services Manager, 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 ____ day of _____, 2010.

Mayor

Financial Services Manager

(SEAL)

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 Financial Services Manager as 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 Financial Services Manager</u> |
|---------------------------------|---|--|
| _____, 2010 | Department of Natural Resources and Conservation 1625 Eleventh Avenue Helena, MT 59620 | _____ |

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

The Financial Services Manager of the City, acting as Registrar, has transferred, on the books of the City, 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 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

[illegible]

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> |
|-------------|------------------|-----------------|---|--|-------------------------------|
|-------------|------------------|-----------------|---|--|-------------------------------|

APPENDIX C

ADDITIONAL REPRESENTATIONS AND COVENANTS

None

APPENDIX D

\$3,300,000
Water System Revenue Bonds
(DNRC Drinking Water State Revolving Loan Program)
consisting of \$500,000 Subordinate Lien Taxable Series 2010A Bond
and \$2,800,000 Series 2010B Bond
City of Billings, Montana

COMPLIANCE CERTIFICATE AND REQUEST

We, _____ and _____, hereby certify that we are on the date hereof the duly qualified and acting Mayor and the City Financial Services Manager, respectively, of the City of Billings, Montana (the "Borrower"), and that:

1. Pursuant to Resolution 05-18329, adopted by the City Council on September 12, 2005, as amended and supplemented by Resolution Nos. 09-18852 and 09-18869 adopted on July 27, 2009 and September 14, 2009, respectively (the "Original Resolution"), as amended and supplemented by Resolution No. _____, adopted on July 12, 2010, entitled "Resolution Relating to \$3,300,000 Water System Revenue Bonds (DNRC Drinking Water State Revolving Loan Program), Consisting of \$500,000 Subordinate Lien Taxable Series 2010A Bond and \$2,800,000 Series 2010B Bond; Authorizing the Issuance and Fixing the Terms and Conditions Thereof" (the "Supplemental Resolution"), the Borrower issued its Subordinate Lien Water System Revenue Bond (DNRC Drinking Water State Revolving Loan Program), Taxable Series 2010A, dated, as originally issued, as of _____, 2010, in the maximum aggregate principal amount of \$500,000 (the "Series 2010A Bond"), and its Water System Revenue Bond (DNRC Drinking Water State Revolving Loan Program), Series 2010B, dated, as originally issued, as of _____, 2010, in the maximum aggregate principal amount of \$2,800,000 (the "Series 2010B Bond"). The Borrower has reviewed the Supplemental Resolution, including, without limitation, Articles II and III thereof, and the definitions relating thereto. The Borrower acknowledges and agrees that the Series 2010A Bond evidences a loan made to the Borrower from the DNRC from funds made available to the DNRC from the 2010 EPA Capitalization Grant, and that this Certificate is being relied upon by the DNRC for ensuring compliance with requirements applicable to the Borrower, the DNRC, and the 2010 Project (as hereinafter defined). Capitalized terms used herein without definition shall have the meanings given them in the Original Resolution, as amended and supplemented by the Supplemental Resolution (as so amended and supplemented, the "Resolution").

2. The Series 2010A Bond is issued to finance a portion of the costs of construction and installation of various improvements to the System, generally described as the 2010 Project (the "2010 Project") in the Resolution. Construction of the 2010 Project has complied with all federal and state standards, including, without limitation, EPA regulations and standards. The 2010 Project is expected to be completed and placed in service on or about _____, 20__.

3. Costs of the 2010 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

2010A Committed Amount not advanced or to be advanced upon delivery hereof. The Borrower specifically confirms and agrees that any remaining amounts of the 2010 Loans to be lent to the Borrower, if any, shall be evidenced by the Series 2010B Bond.

4. As of the date hereof, the Borrower has spent the following amounts in connection with the 2010 Project and costs related thereto:

Preliminary Engineering
Engineering/Arch. Design
Construction Engineering Services
Construction
Contingency
Audit Fees
Loan Reserves
Bond Counsel
TOTALS _____

Of such amounts, \$ _____ were paid from advances of proceeds of the Series 2010A Bond and \$ _____ of the proceeds have been applied to Green Infrastructure.

5. The Trustee has delivered to the Borrower a copy of Schedule B to be attached to the Series 2010A Bond, which reflects the amortization of all advances made or to be made on the date hereof of proceeds of the Series 2010A Bond (i.e., \$ _____). The Borrower hereby acknowledges and agrees that Schedule B has been calculated in accordance with the provisions of the Resolution and the Indenture, and that the Series 2010A 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 delivers a Forgiveness Statement, the Borrower's obligation to repay the principal of the Series 2010A Bond and interest and surcharges thereon is thereupon forgiven, and if the DNRC delivers a Noncompliance Certificate, amounts advanced under the 2010A Loan evidenced by the Series 2010A Bond shall bear interest from and after the first advance of principal of the Series 2010A Bond at the rate of two percent (2.00%) per annum and the Borrower shall pay currently with interest the Administrative Expense Surcharge and the Loan Loss Reserve Surcharge, all as described in Section 5.1.2 of the Supplemental Resolution authorizing the Series 2010A Bond.

6. The representations of the Borrower contained in Articles II and III of the Supplemental 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.

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

8. The Borrower is delivering this Certificate to the DNRC, in part, to ensure compliance with EPA regulations and standards. The Borrower certifies that all laborers and mechanics employed by contractors and subcontractors on the 2010 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.

9. The Borrower acknowledges and agrees that this Certificate completed by the Borrower 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 2010A 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 2010A 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, and (iii) if the DNRC delivers to the Borrower a Noncompliance Certificate, (a) the obligation of the Borrower to repay the principal of the Series 2010A 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 2010A 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 2010A Bond and the Resolution, and (b) the Borrower shall, as necessary, within the 3-month period specified in the Supplemental Resolution, adjust its rates and charges to produce Net Revenues and Surplus 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 _____ day of _____, 2010.

CITY OF BILLINGS, MONTANA

(SEAL)

By _____
Mayor

By _____
City Financial Services Manager