

CERTIFICATE AS TO RESOLUTION

I, the undersigned, being the duly qualified and acting recording officer of the City of Billings, Montana (the "City"), hereby certify that the attached resolution is a true copy of Resolution No.08-18738, entitled: "RESOLUTION RELATING TO \$7,400,000 SEWER SYSTEM REVENUE BOND (DNRC STATE REVOLVING LOAN PROGRAM), SERIES 2008; AUTHORIZING THE ISSUANCE AND FIXING THE TERMS AND CONDITIONS THEREOF" (the "Resolution"), on file in the original records of the City in my legal custody; that the Resolution was duly adopted by the City Council of the City at a regular meeting on July 28, 2008, and that the meeting was duly held by the City Council and was attended throughout by a quorum, pursuant to call and notice of such meeting given as required by law; and that the Resolution has not as of the date hereof been amended or repealed.

I further certify that, upon vote being taken on the Resolution at said meeting, the following Council Members voted in favor thereof: Ronquillo, Gagen, Pitman, Stevens, Ruegamer, McCall, Ulledalen, Astle, and Clark; voted against the same: \_\_\_\_\_; abstained from voting thereon: \_\_\_\_\_; or were absent: Veis.

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

Cari Martin  
City Clerk

SUPPLEMENTAL BOND RESOLUTION

Relating to

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

CITY OF BILLINGS

Adopted: July 28, 2008

TABLE OF CONTENTS

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

	<u>Page</u>
Recitals.....	1
 ARTICLE I DEFINITIONS, RULES OF CONSTRUCTION AND APPENDICES  	
Section 1.1. Definitions.....	2
Section 1.2. Other Rules of Construction .....	7
Section 1.3. Appendices.....	8
 ARTICLE II AUTHORIZATION, FINDINGS, REPRESENTATIONS AND COVENANTS  	
Section 2.1. Authorization and Findings.....	8
Section 2.2. Representations .....	9
Section 2.3. Covenants.....	12
Section 2.4. Covenants Relating to the Tax-Exempt Status of the State Bonds .....	15
Section 2.5. Maintenance of System; Liens.....	18
Section 2.6. Maintenance of Existence; Merger, Consolidation, Etc.; Disposition of Assets .....	18
 ARTICLE III USE OF PROCEEDS; THE 2008 PROJECT  	
Section 3.1. Use of Proceeds.....	19
Section 3.2. The 2008 Project .....	19
Section 3.3. 2008 Project Representations and Covenants .....	20
Section 3.4. Completion or Cancellation or Reduction of Costs of the 2008 Project .....	20
 ARTICLE IV THE LOAN  	
Section 4.1. The Loan; Disbursement of Loan .....	21
Section 4.2. Commencement of Loan Term .....	24
Section 4.3. Termination of Loan Term.....	24
Section 4.4. Loan Closing Submissions.....	24
 ARTICLE V REPAYMENT OF 2008 Loan  	
Section 5.1. Repayment of 2008 Loan.....	24
Section 5.2. Additional Payments .....	26
Section 5.3. Prepayments .....	26
Section 5.4. Obligations of Borrower Unconditional .....	26
Section 5.5. Limited Liability.....	27
 ARTICLE VI  	
INDEMNIFICATION OF DNRC AND DEQ.....	27
 ARTICLE VII ASSIGNMENT  	

Section 7.1.	Assignment by City.....	27
Section 7.2.	Assignment by DNRC .....	28
Section 7.3.	State Refunding Bonds .....	28

ARTICLE VIII  
THE SERIES 2008 BOND

Section 8.1.	Net Revenues Available.....	28
Section 8.2.	Issuance and Sale of the Series 2008 Bond .....	28
Section 8.3.	Terms .....	28
Section 8.4.	Negotiability, Transfer and Registration.....	29
Section 8.5.	Execution and Delivery.....	29
Section 8.6.	Form .....	29

ARTICLE IX

SECURITY FOR THE SERIES 2008 BOND .....	29
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ARTICLE X  
TAX MATTERS

Section 10.1.	Use of 2008 Project .....	30
Section 10.2.	General Covenant.....	30
Section 10.3.	Arbitrage Certification .....	30
Section 10.4.	Arbitrage Rebate Exemption.....	31
Section 10.5.	Information Reporting.....	31

ARTICLE XI  
MISCELLANEOUS

Section 11.1.	Notices.....	31
Section 11.2.	Binding Effect .....	32
Section 11.3.	Severability.....	32
Section 11.4.	Amendments.....	32
Section 11.5.	Applicable Law .....	32
Section 11.6.	Captions; References to Sections .....	32
Section 11.7.	No Liability of Individual Officers, Directors or Trustees.....	32
Section 11.8.	Payments Due on Holidays .....	32
Section 11.9.	Rights of Others To Perform City's Covenants .....	32
Section 11.10.	Authentication of Transcript .....	33
Section 11.11.	Effective Date.....	33

APPENDIX A	Description of the 2008 Project	
APPENDIX B	Form of Series 2008 Bond	
APPENDIX C	Additional Representations and Covenants	

RESOLUTION NO. 08-18738

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

WHEREAS, pursuant to the Montana Water Pollution Control State Revolving Fund Act, Montana Code Annotated, Title 75, Chapter 5, Part 11, as amended (the "Act"), the State of Montana (the "State") has established a revolving loan program (the "Program") to be administered by the Department of Natural Resources and Conservation of the State of Montana, an agency of the State (the "DNRC"), and by the Department of Environmental Quality of the State of Montana, an agency of the State (the "DEQ"), and has provided that a revolving wastewater treatment works revolving fund (the "Revolving Fund") be created within the state treasury and all federal, state and other funds for use in the Program be deposited into the Revolving Fund, including, but not limited to, all federal grants for capitalization of a state water pollution control revolving fund under the Federal Water Pollution Control Act (also known as the Clean Water Act) (the "Clean Water Act"), all repayments of assistance awarded from the Revolving Fund, interest on investments made on money in the Revolving Fund and payments of principal of and interest on loans made from the Revolving Fund; and

WHEREAS, the Act provides that funds from the Program shall be disbursed and administered for the purposes set forth in the Clean Water Act and according to rules adopted by the Department of Environmental Quality and the Department of Natural Resources and Conservation; and

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

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

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

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

ARTICLE I

DEFINITIONS, RULES OF CONSTRUCTION AND APPENDICES

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

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

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

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

"Administrative Expense Surcharge" means a surcharge on each 2008 Loan charged by the DNRC to the Borrower equal to seventy-five hundredths of one percent (0.75%) per annum on the outstanding principal amount of such 2008 Loan, payable by the Borrower on the same dates that payments of interest on each of such 2008 Loan are due.

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

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

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

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

“Borrower” means the City of Billings, Montana.

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

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

“Closing” means the date of delivery of the Series 2008 Bond to the DNRC.

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

“Collateral Documents” means any security agreement, guaranty or other document or agreement delivered to the DNRC securing the obligations of the Borrower under this Resolution and the Series 2008 Bond. If no Collateral Documents secure such obligations, any reference to Collateral Documents in this Resolution shall be without effect.

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

“Consultant” means a nationally recognized consultant or firm of consultants, or an independent engineer or firm of independent engineers, or an Accountant, which in any case is qualified and has skill and experience in the preparation of financial feasibility studies or projections for facilities similar to the System or the 2008 Project, selected by the Borrower and satisfactory to the DNRC.

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

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

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

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

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

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

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

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

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

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

“Indenture” means the Indenture of Trust, dated as of June 1, 1991, between the Board of Examiners of the State and the Trustee, as such has been or may be supplemented or amended from time to time in accordance with the provisions thereof, pursuant to which, among other things, the State Bonds are to be or have been issued.

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

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

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

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

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

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

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

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

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

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

“Person” means any Private Person or Public Entity.

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

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

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

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

“Regulations” means the Treasury Regulations, whether final, temporary or proposed, promulgated under the Code or otherwise applicable to the Series 2008 Bond.

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

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

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

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

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

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

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

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

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

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

“State” means the State of Montana.

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

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

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

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

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

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

“2005 Committed Amount” means \$4,515,000.

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

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



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

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

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

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

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

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

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

- Appendix A: a description of the 2008 Project;
- Appendix B: the form of the Series 2008 Bond; and
- Appendix C: additional agreements and representations of the Borrower.

## ARTICLE II AUTHORIZATION, FINDINGS, REPRESENTATIONS AND COVENANTS

Section 2.1 Authorization and Findings.

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

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

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

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

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

Section 2.2 Representations. The City represents as follows:

(a) Organization and Authority. The City:

(i) is duly organized and validly existing as a municipal corporation of the State;

(ii) has all requisite power and authority and all necessary licenses and permits required as of the date hereof to own and operate the System and to carry on its current activities with respect to the System, to adopt this Supplemental Resolution and to enter into the Collateral Documents and to issue the Series 2008 Bond and to carry out and consummate all transactions contemplated by the Resolution, the Series 2008 Bond and the Collateral Documents;

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

(iv) has taken all proper action to authorize the execution, delivery and performance of its obligations under this Supplemental Resolution, the Series 2008 Bond and the Collateral Documents and the incurrence of the Debt evidenced by the Series 2008 Bond in the maximum amount of the Committed Amount.

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

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

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

(ii) do not and will not result in any breach of any of the terms, conditions or provisions of, or constitute a default under, or result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the City pursuant to any resolution, indenture, loan agreement or other agreement or instrument (other than the Resolution and any Collateral Documents) to which the City is a party or by which the City or its property may be bound, nor will such action result in any violation of the provisions of any laws, ordinances, governmental rules or regulations or court or other governmental orders to which the City, its properties or operations are subject.

(d) No Defaults. No event has occurred and no condition exists that, upon execution and delivery of the Series 2008 Bond and the Collateral Documents, would constitute a default under the Resolution or the Collateral Documents. The City is not in violation of any term of any agreement, bond resolution, trust indenture, charter or other instrument to which it is a party or by which it or its property may be bound which violation would materially and adversely affect the transactions contemplated hereby or the compliance by the City with the terms hereof or of the Series 2008 Bond and the Collateral Documents.

(e) Governmental Consent. The City has obtained or made all permits, findings and approvals required to the date of adoption of this Supplemental Resolution by any governmental body or officer for the making and performance by the City of its obligations under this Supplemental Resolution, the Series 2008 Bond and the Collateral Documents (including any necessary sewer rate increase) or for the 2008 Project, the financing or refinancing thereof or the reimbursement of the City for the costs thereof. No consent, approval or authorization of, or filing, registration or qualification with, any governmental authority (other than those, if any, already obtained) is required on the part of the City as a condition to adopting this Supplemental Resolution, issuing the Series 2008 Bond or entering into the Collateral Documents and the performance of the City's obligations hereunder and thereunder. If a utility board or commission manages or controls the System, such board or commission has agreed with the DNRC to abide by the terms of the Resolution and the Collateral Documents, including approving any necessary sewer rate increases.

(f) Binding Obligation. The Resolution, the Series 2008 Bond and any Collateral Document to which the City is a party are the valid and binding special, limited obligations and agreements of the City, enforceable against the City in accordance with their terms, except to the extent that the enforceability thereof may be limited by laws relating to bankruptcy, moratorium, reorganization, insolvency or similar laws affecting creditors' rights and general principles of equity.

(g) The 2008 Project. The 2008 Project consists and will consist of the facilities, improvements and activities described in Appendix A, as such Appendix A may be amended from time to time in accordance with the provision of Article III of this Supplemental Resolution.

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

(i) Compliance With Law. The City:

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

(2) has obtained all licenses, permits, franchises or other governmental authorizations necessary to the ownership of the System and the operation thereof and agrees to obtain all such licenses, permits, franchises or other governmental authorizations as may be required in the future for the System and the operation thereof, which failure to obtain might materially and adversely affect the ability of the City to conduct the operation of the System as presently conducted or the condition (financial or otherwise) of the System or the City's ability to perform its obligations under the Resolution, the Series 2008 Bond and the Collateral Documents.

### Section 2.3 Covenants.

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

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

(c) Further Assurance. The City shall execute and deliver to the DNRC all such documents and instruments and do all such other acts and things as may be necessary or required by the DNRC to enable the DNRC to exercise and enforce its rights under the Resolution, the Series 2008 Bond and the Collateral Documents and to realize thereon, and record and file and re-record and refile all such documents and instruments, at such time or times, in such manner and at such place or places, all as may be necessary or required by the DNRC to validate, preserve and protect the position of the DNRC under the Resolution, the Series 2008 Bond and the Collateral Documents.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The City shall also have prepared and supplied to the DNRC and the DEQ, within 180 days of the close of every other fiscal year, an audit report prepared by an independent certified public accountant or an agency of the state in accordance with generally accepted governmental accounting principles and practice with respect to the financial statements and records of the System. The audit report shall include an analysis of the City's compliance with the provisions of the Resolution.

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

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

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

(j) Program Covenant. The City agrees that neither it nor any "related person" to the City (within the meaning of Section 147(a)(2) of the Code) shall, whether pursuant to a formal or informal arrangement, acquire bonds issued by the State under the Indenture in an amount related to the amount of the Series 2008 Bond.

(k) Information Reporting. The City understands and acknowledges that the DNRC is financing the purchase of the Series 2008 Bond under the Program pursuant to which the State issues from time to time the State Bonds to provide funds therefor. The City covenants and agrees that, upon written request of the DNRC from time to time, the City will promptly provide to the DNRC all information that the DNRC reasonably determines to be necessary or appropriate to offer and sell State Bonds or to provide continuing disclosure in respect of State Bonds, whether under Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 (17 C.F.R. § 240.15c2-12) or otherwise. Such information shall include, among other things and if so requested, financial statements of the City or the System prepared in accordance with generally accepted accounting principles promulgated by the Financial Accounting Standards Board as modified in accordance with the governmental accounting standards promulgated by the Governmental Accounting Standards Board or as otherwise provided under Montana law, as in effect from time to time (such financial statements to relate to a fiscal year or any period therein for which they are customarily prepared by the City, and, if for a fiscal year and so requested by the Department, subject to an audit report and opinion of an accountant or government auditor, as permitted or required by the laws of the State of Montana). The City will also provide, with any information so furnished to the Department, a certificate of the Mayor and the City Clerk to the effect that, to the best of their knowledge, such information does not include any untrue statement of a material fact or omit to state any material fact required to be stated therein to make the statements made, in light of the circumstances under which they are made, not misleading.

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

(a) The City covenants and agrees that it will not use or permit to be used any of the proceeds of the Series 2008 Bond or any other funds of the City in respect of the 2008 Project or the Series 2008 Bond, directly or indirectly, in a manner that would cause, or take any other action that would cause, any State Bond to be an "arbitrage bond" within the meaning of Section 148 of the Code or would otherwise cause the interest on the State Bonds to be included in gross income for purposes of federal income taxation. In addition, the City agrees that it will not enter into, or allow any "related person" (as defined in Section 147(a)(2) of the Code) to enter into, any arrangement, formal or informal, for the purchase of the State Bonds or any other obligations of the DNRC in an amount related to the amount of the Loan or the portion of the Loan derived directly or indirectly from proceeds of the State Bonds or that would otherwise cause any State Bond to be an "arbitrage bond" within the meaning of Section 148 of the Code.

(b) The City shall not use or permit the use of the 2008 Project directly or indirectly in any trade or business carried on by any Person who is not a Governmental Unit. For the purpose of this subparagraph, use as a member of the general public (within the meaning of the Regulations) shall not be taken into account and any activity carried on by a Person other than a natural person shall be treated as a trade or business.

(c) Any portion of the 2008 Project being refinanced or the cost of which is being reimbursed was acquired by and is now and shall, during the term of the Loan, be owned by the City and not by any other Person. Any portion of the 2008 Project being financed shall be acquired by and shall, during the term of the Loan, be owned by the City and not by any other Person. Notwithstanding the previous two sentences, the City may transfer the 2008 Project or a portion thereof to another Governmental Unit which