

CERTIFICATE AS TO RESOLUTION AND ADOPTING VOTES

I, the undersigned, being the duly qualified and acting recording officer of the City of Billings, Yellowstone County, Montana (the "City"), hereby certify that the attached resolution is a true copy of a Resolution entitled: "RESOLUTION RELATING TO \$5,360,000 SPECIAL IMPROVEMENT DISTRICT NO. 1385 BONDS; AWARDING THE SALE; FIXING THE FORM AND DETAILS AND PROVIDING FOR THE EXECUTION AND DELIVERY THEREOF AND SECURITY THEREFOR" (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 October 14, 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notice of such meeting given as required by law; and that the Resolution has not as of the date hereof been amended or repealed.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, Gaghan, Pitman, Stevens, Ruegamer, McCall, Ulledalen, Astle and Clark; voted against the same: Veis; abstained from voting thereon: none; or were absent: none.

WITNESS my hand and seal officially this 14th day of October, 2008.

(SEAL)



Cari Martin
City Clerk

RESOLUTION NO. 08-18761

RESOLUTION RELATING TO \$5,360,000 SPECIAL IMPROVEMENT DISTRICT NO. 1385 BONDS; AWARDING THE SALE; FIXING THE FORM AND DETAILS AND PROVIDING FOR THE EXECUTION AND DELIVERY THEREOF AND SECURITY THEREFOR

BE IT RESOLVED by the City Council (the "Council") of the City of Billings, Montana (the "City"), as follows:

Section 1. Recitals. It is hereby found, determined and declared as follows:

1.01. Receipt of Petition. This Council received a petition, dated August 11, 2008 (the "Petition") to create and establish in the City under Montana Code Annotated, Title 7, Chapter 12, Part 41, as amended (the "Act"), a special improvement district for the purpose of financing certain local improvements to benefit certain property located in the City and included within the proposed special improvement district. The Petition was signed by all owners of the property in the proposed special improvement district and the owners expressly consented in the Petition to the creation of the proposed special improvement district on the terms and conditions hereinafter specified.

1.02. Creation of District. Based on the Petition and Sections 7-12-4102(3), 7-12-4110(2) and 7-12-4114(1)(d) of the Act and by Resolution No. 08-18742, duly adopted by the Council on August 11, 2008, this Council created Special Improvement District No. 1385 (the "District"), for the purpose of financing costs of certain public improvements of special benefit to the properties within the District and designating the number of the District, the boundaries thereof, whether the District was an extended district and the general character of the improvements to be made (collectively, the "Improvements") and an approximate estimate of the costs thereof, in accordance with the provisions of the Act. By Resolution No. 08-18742, this Council also declared its intention to cause the cost and expense of making the Improvements specially benefiting a District to be assessed against the properties included within the boundaries thereof in accordance with one or more methods of assessment authorized in Montana Code Annotated, Sections 7-12-4161 to 7-12-4165 and as set forth in Resolution No. 08-18742.

In Resolution No. 08-18742, this Council further found that it is in the public interest, and in the best interest of the City and the District, to secure payment of principal of and interest on the Bonds by the Special Improvement District Revolving Fund of the City (the "Revolving Fund"), on the basis of factors required to be considered under Section 7-12-4225 of the Act. Those findings are hereby ratified and confirmed.

In Resolution No. 08-18742, the Council also declared its intention to reimburse the City for costs paid before issuance of the Bonds, as required by Section 1.150-2 of the Income Tax Regulations promulgated under the Internal Revenue Code.

1.03. Construction Contracts. The City will cause or has caused to be constructed certain Improvements as described in Resolution No. 08-18742. Plans, specifications, maps, profiles and surveys for construction of the Improvements to be constructed to benefit the District were prepared by the engineers acting for the City or by City engineers, and were thereupon examined and approved by this Council. Advertisements for bids for construction of the Improvements were published in the official newspaper of the City in accordance with the provisions of Montana Code Annotated, Section 7-12-4141, after which the bids theretofore received were opened and examined. After referring the bids to the engineers for the City it was determined that the lowest regular proposals for the furnishing of all work and materials required for constructing the Improvements in accordance with the approved plans and specifications were the following:

SID No. 1385:

| <u>Work</u> | <u>Bidder</u> | <u>Contract Price</u> |
|---|--------------------------|-----------------------|
| Street improvements on King Avenue East, South Billings Boulevard, Newman Lane, Calhoun Lane and Orchard Lane, as well as water, storm drain and sanitary sewer facilities, and city/county drain crossings | Knife River Construction | \$3,068,058.00 |

Contracts for the construction of the Improvements were therefore awarded to said bidders, subject to the right of owners of property liable to be assessed for the costs thereof to elect to take the work and enter into written contracts therefor in the manner provided by Montana Code Annotated, Section 7-12-4147, which

election the property owners failed to make, whereupon the City and the successful bidders entered into written contracts for construction of the Improvements upon the bidders having executed and filed bonds satisfactory to this Council and in the form and manner provided by Montana Code Annotated, Title 18, Chapter 2, Part 2, as amended.

1.04. Costs. It is currently estimated that the costs and expenses connected with and incidental to the formation of the District to the City to be assessed against properties in the District, including costs of preparation of plans, specifications, maps, profiles, engineering superintendence and inspection, preparation of assessment rolls, expenses of making the assessments, the cost of work and materials under the construction contracts and all other costs and expenses, including the deposit of proceeds in the Revolving Fund of \$268,000, are \$5,360,000. Such amounts will be levied and assessed upon the assessable real property within the District on the basis described in Resolution No. 08-18742. This Council has jurisdiction and is required by law to levy and assess such amounts, to collect such special assessments and credit the same to the special improvement district funds created for the District, which funds are to be maintained on the official books and records of the City separate from all other City funds, within the Special Improvement District No. 1385 Fund (the "District Fund") for the payment of principal and interest when due on the bonds herein authorized.

1.05. Sale and Issuance of Bonds. For the purpose of financing a portion of the costs and expenses of making the Improvements, which are to be assessed against the property within each District as provided in Resolution No. 08-18742, this Council, pursuant to Resolution No. 08-18743, adopted August 11, 2008, called for the public sale of \$5,360,000 Special Improvement District No. 1385 Bonds (the "Bonds") to finance the costs of certain local improvements to be undertaken in or for the benefit of Special Improvement District No. 1385. Notice of the sale has been duly published in accordance with Montana Code Annotated, Sections 7-12-4204, 7-7-4252 and 17-5-106. The Council has previously approved the revisions to the Notice of Sale dated as of October 10, 2008 (the "Revised Notice of Sale"). Pursuant to and consistent with the Revised Notice of Sale, one (1) bid for the purchase of the Bonds was received at or before the time specified for receipt of bids. The bid has been opened or accessed and publicly read and considered, and the purchase price, interest rates and net interest cost under the terms of the bid has been determined.

The bid of D.A. Davidson & Co., of Great Falls, Montana (the "Purchaser"), attached as Exhibit A, to purchase the Bonds of the City, is hereby determined to comply with the Revised Notice of Sale, and to be the lowest, most reasonable bid for the purchase of the Bonds. Springsted, Inc., the City's financial advisor, has recommended the City accept the bid as submitted. The bid of the Purchaser is hereby accepted by the Council and the sale of the Bonds is hereby awarded to the Purchaser. The bid security of the Purchaser shall be retained pending delivery of the payment for the Bonds and the bid security of all other bidders shall be promptly returned.

The Mayor and City Financial Services Manager are hereby authorized and directed to execute on behalf of the City a contract for the sale of the Bonds with the Purchaser.

The Official Statement relating to the Bonds, dated October 1, 2008, and the Addendum to the Official Statement, dated October 14, 2008, are hereby approved. The officers of the City are hereby authorized and directed to execute such certificates as may be appropriate concerning the accuracy, completeness and sufficiency of the Official Statement and to deliver to the Purchaser within seven business days after the date of adoption of this resolution copies of the Official Statement in accordance with the Notice of Sale, supplemented so as to contain the terms of the Bonds as set forth in this resolution and the reoffering and other information provided by the Purchaser for inclusion in the Official Statement.

This Council authorized the City to enter into a contract with Purchaser, as the lowest responsible bidder pursuant to which the Purchaser agreed to purchase from the City the Bonds at a purchase price of \$5,226,000, at the rates of interest set forth in Section 2.01 hereof and upon the further terms set forth in this resolution resulting in a true interest cost of 7.965830% per annum, a net interest cost of \$5,293,792, and a total dollar interest cost of \$5,159,792.50.

1.06. Recitals. All acts, conditions and things required by the Constitution and laws of the State of Montana, including Montana Code Annotated, Title 7, Chapter 12, Parts 41 and 42, as amended, and the home rule charter of the City, in order to make the Bonds valid and binding special obligations in accordance with their terms and in accordance with the terms of this resolution have been done, do exist, have happened and have been performed in regular and due form, time and manner as so required.

Section 2. The Bonds.

2.01. Principal Amount, Maturities, Denominations, Date, Interest Rates. For the purpose of paying the costs and expenses incurred in construction of the Improvements, and in anticipation of the collection of special assessments to be levied therefor, and in accordance with the proposal described in Section 1.05, the City shall forthwith issue and deliver to the Purchaser the Bonds payable solely from the District Fund and denominated "Special Improvement District No. 1385 Bonds." The Bonds shall be in the denomination of \$5,000 each or any integral multiple thereof of single maturities. The Bonds shall mature on July 1 in the years and amounts listed below, and the Bonds maturing in such years and amounts shall bear interest from date of original issue until paid or duly called for redemption at the rates shown opposite such years and amounts, as follows:

| Year | Principal Amount | Interest Rate | Year | Principal Amount | Interest Rate |
|------|------------------|---------------|------|------------------|---------------|
| 2011 | \$205,000 | 5.400% | 2020 | \$290,000 | 7.600% |
| 2012 | 210,000 | 5.750 | 2021 | 305,000 | 7.700 |
| 2013 | 220,000 | 6.000 | 2022 | 320,000 | 7.800 |
| 2014 | 225,000 | 6.250 | 2023 | 335,000 | 7.900 |
| 2015 | 235,000 | 6.500 | 2024 | 355,000 | 8.000 |
| 2016 | 245,000 | 6.750 | 2025 | 375,000 | 8.050 |
| 2017 | 255,000 | 7.000 | 2026 | 390,000 | 8.100 |
| 2018 | 265,000 | 7.200 | 2027 | 415,000 | 8.150 |
| 2019 | 280,000 | 7.400 | 2028 | 435,000 | 8.200 |

Interest shall be calculated on the basis of a 360-day year composed of twelve 30-day months.

2.02. Interest Payment Dates. Interest on the Bonds shall be payable on each January 1 and July 1, commencing July 1, 2009, to the owners of record thereof as such appear on the bond register at the close of business on the fifteenth day of the immediately preceding month, whether or not such day is a business day. Upon the original delivery of the Bonds to the Purchaser and upon each subsequent transfer or exchange of a Bond pursuant to Section 2.04, the Registrar shall date each Bond as of the date of its authentication.

2.03. Method of Payment. The Bonds shall be issued only in fully registered form. The interest on and, upon surrender thereof at the principal office of the Registrar (as hereinafter defined), the principal of each Bond, shall be payable by check or draft drawn on the Registrar.

2.04. Registration. The City shall appoint, and shall maintain, a bond registrar, transfer agent and paying agent for the Bonds (the "Registrar"). This Section 2.04 shall establish a system of registration for the Bonds as defined in the Model Public Obligations Registration Act of Montana.

The effect of registration and the rights and duties of the City and the Registrar with respect thereto shall be as follows:

(a) Bond Register. The Registrar shall keep at its principal office a bond register in which the Registrar shall provide for the registration of ownership of the Bonds and the registration of transfers and exchanges of the Bonds entitled to be registered, transferred or exchanged.

(b) Transfer. Upon surrender to the Registrar for transfer of any Bond duly endorsed by the registered owner thereof or accompanied by a written instrument of transfer, in form satisfactory to the Registrar, duly executed by the registered owner thereof or by an attorney duly authorized by the registered owner in writing, the Registrar shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Bonds of a like aggregate principal amount and maturity, as requested by the transferor. The Registrar may, however, close the books for registration of any transfer of any Bond or portion thereof selected or called for redemption. No transfer or exchange of a Bond shall affect its order of registration for purposes of redemption pursuant to Section 2.06.

(c) Exchange. Whenever any Bond is surrendered by the registered owner for exchange, the Registrar shall authenticate and deliver one or more new Bonds of a like aggregate principal amount, interest rate and maturity, as requested by the registered owner or the owner's attorney duly authorized in writing.

(d) Cancellation. All Bonds surrendered upon any transfer or exchange shall be promptly canceled by the Registrar and thereafter disposed of as directed by the City.

(e) Improper or Unauthorized Transfer. When any Bond is presented to the Registrar for transfer, the Registrar may refuse to transfer the same until it is satisfied that the endorsement on such Bond or separate instrument of transfer is valid and genuine and that the requested transfer is legally authorized. The Registrar shall incur no liability for the refusal, in good faith, to make transfers which it, in its judgment, deems improper or unauthorized.

(f) Persons Deemed Owners. The City and the Registrar may treat the person in whose name any Bond is at any time registered in the bond register as the absolute owner of such Bond, whether such Bond shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal of and interest on such Bond and for all other purposes, and all such payments so made to any such registered owner or upon the owner's order shall be valid and effectual to satisfy and discharge the liability of the City upon such Bond to the extent of the sum or sums so paid.

(g) Taxes, Fees and Charges. For every transfer of Bonds or exchange of Bonds (except an exchange upon a partial redemption of a Bond), the Registrar may impose a charge upon the owner thereof sufficient to reimburse the Registrar for any tax, fee or other governmental charge required to be paid with respect to such transfer or exchange.

(h) Mutilated, Lost, Stolen or Destroyed Bonds. In case any Bond shall become mutilated or be destroyed, stolen or lost, the Registrar shall deliver a new Bond of like amount, number, maturity date and tenor in exchange and substitution for and upon cancellation of any such mutilated Bond or in lieu of and in substitution for any such Bond destroyed, stolen or lost, upon the payment of the reasonable expenses and charges of the Registrar in connection therewith; and, in the case of a Bond destroyed, stolen or lost, upon filing with the Registrar of evidence satisfactory to it that such Bond was destroyed, stolen or lost, and of the ownership thereof, and upon furnishing to the Registrar an appropriate bond or indemnity in form, substance and amount satisfactory to it, in which both the City and the Registrar shall be named as obligees. All Bonds so surrendered to the Registrar shall be canceled by it and evidence of such cancellation shall be given to the City. If the mutilated, destroyed, stolen or lost Bond has already matured or such Bond has been called for redemption in accordance with its terms, it shall not be necessary to issue a new Bond prior to payment.

2.05. Initial Registrar. The City hereby appoints U.S. Bank National Association, of Seattle, Washington, as the initial Registrar for the Bonds. The City reserves the right to appoint a successor Registrar, and the City agrees to pay the reasonable and customary charges of the Registrar for the services performed. Upon merger or consolidation of a bank or trust company that is acting as the Registrar, if the resulting corporation is a bank or trust company authorized by law to conduct such business, such corporation shall be authorized to act as successor Registrar. The City reserves the right to remove any Registrar upon 30 days' notice and upon the appointment of a successor Registrar, in which event the predecessor Registrar shall deliver all cash and Bonds in its possession as Registrar to the successor Registrar and shall deliver the bond register to the successor Registrar. On or before each principal or interest due date, without further order of this Council, the Financial Services Manager shall transmit to the Registrar, solely from money in the District Fund available therefor, moneys sufficient for the payment of all principal, premium, if any, and interest then due on the Bonds.

2.06. Redemption.

(a) Mandatory Redemption. If on any interest payment date there will be a balance in the District Fund after payment of the principal and interest due on all Bonds drawn against it, either from the prepayment of special assessments levied in the District or from the transfer of surplus money from the Construction Accounts to the Principal Accounts as provided in Section 3.02 or otherwise, the Financial Services Manager shall call for redemption on the interest payment date outstanding Bonds, or portions thereof, in an amount which, together with the interest thereon to the interest payment date, will equal the amount of such funds on deposit in the District Fund on that date. The redemption price shall equal the amount of the principal amount of the Bonds to be redeemed plus interest accrued to the date of redemption.

(b) Optional Redemption. The Bonds are subject to redemption, in whole or in part, at the option of the City from sources of funds available therefor other than those described in Subsection (a) of this Section 2.06 on any interest payment date on July 1, 2015, and any date thereafter, at the option of the City, in whole or in part, at a redemption price equal to the principal amount thereof to be redeemed plus interest accrued to the redemption date, without premium.

(c) Selection of Bonds for Redemption. If less than all of the Bonds are to be redeemed, Bonds shall be redeemed in order of the stated maturities thereof. If less than all Bonds of a stated maturity are

to be redeemed, the Bonds of such maturity shall be selected for redemption in \$5,000 principal amounts selected by the Registrar by lot or other manner it deems fair.

(d) Notice and Effect of Redemption. The date of redemption and the principal amount of the Bonds shall be fixed by the Financial Services Manager, who shall give notice thereof to the Registrar in sufficient time for the Registrar to give notice, by first class mail, postage prepaid, or by other means required by the securities depository, to the owner or owners of such Bonds at their addresses appearing in the bond register, of the numbers of the Bonds or portions thereof to be redeemed and the date on which payment will be made, which date shall be not less than thirty (30) days after the date of mailing notice. On the date so fixed interest on the Bonds or portions thereof so redeemed shall cease.

(e) Notification to the Paying Agent. Upon request by the City under the above sections 2.05(a) and 2.05(b), the Registrar shall give notice of redemption as directed provided that the City has given the Registrar such request at least 45 days prior to the redemption date.

2.07. Form. The Bonds shall be drawn in substantially the form set forth in Exhibit B hereto, and by this reference made a part hereof, with such modifications as are permitted by the Act.

2.08. Execution, Registration and Delivery. The Bonds shall be prepared under the direction of the City Clerk and shall be executed on behalf of the City by the signatures of the Mayor, Financial Services Manager and the City Clerk and sealed with the official seal of the City; provided that the signatures and the corporate seal may be printed, engraved or lithographed facsimiles of the originals. In case any officer whose signature or a facsimile of whose signature shall appear on the Bonds shall cease to be such officer before the delivery of any Bond, such signature or facsimile shall nevertheless be valid and sufficient for all purposes, the same as if such officer had remained in office until delivery. Notwithstanding such execution, no Bond shall be valid or obligatory for any purpose or entitled to any security or benefit under this resolution unless a certificate of authentication on such Bond has been duly executed by the manual signature of an authorized representative of the Registrar. Certificates of authentication on different Bonds need not be signed by the same representative. The executed certificate of authentication on each Bond shall be conclusive evidence that it has been authenticated and delivered under this resolution. The Bonds shall be registered in order of their serial numbers by the Registrar, as of October 1, 2008. When the Bonds have been so executed, authenticated and registered, they shall be delivered by the Registrar to the Purchaser upon payment of the purchase price in accordance with the contract of sale heretofore made and executed. The Purchaser shall not be obligated to see to the applicability of the purchase price, but from the net proceeds of the Bonds the Financial Services Manager shall credit forthwith \$268,000 to the Revolving Fund, as required by Section 7-12-4169(2) of the Act, any accrued interest to the Interest Account in the District Fund, and the balance of such proceeds to the Construction Account in the District Account, in proportion to the principal amounts of the Bonds allocable to the District, as set forth in Section 1.05, to be used solely for the purposes described in Section 3.02.

2.09. Securities Depository for the Bonds.

(a) For purposes of this Section 2.09, the following terms shall have the following meanings:

"Beneficial Owner" shall mean, whenever used with respect to a Bond, the person in whose name such Bond is recorded as the beneficial owner of such Bond by a Participant on the records of such Participant, or such person's subrogee.

"Cede & Co." shall mean Cede & Co., the nominee of DTC, and any successor nominee of DTC with respect to the Bonds.

"DTC" shall mean The Depository Trust Company of New York, New York.

"Participant" shall mean any broker-dealer, bank or other financial institution for which DTC holds the Bonds as securities depository.

"Representation Letter" shall mean the Blanket Issuer Letter of Representations from the City to DTC, attached to this resolution as Exhibit C, which is hereby incorporated by reference and made a part hereof.

(b) The Bonds shall be initially issued as separately authenticated fully registered Bonds, and one Bond shall be issued in the principal amount of each stated maturity of the Bonds. Upon initial issuance, the ownership of such Bonds shall be registered in the Bond register in the name of Cede & Co., the nominee of DTC. The Registrar and the City may treat DTC (or its nominee) as the sole and exclusive owner of the Bonds registered in its name for the purposes of payment of the principal of or interest on the

Bonds, selecting the Bonds or portions thereof to be redeemed, if any, giving any notice permitted or required to be given to registered owners of Bonds under this Resolution, registering the transfer of Bonds, and for all other purposes whatsoever; and neither the Registrar nor the City shall be affected by any notice to the contrary. Neither the Registrar nor the City shall have any responsibility or obligation to any Participant, any Person claiming a beneficial ownership interest in the Bonds under or through DTC or any Participant, or any other Person which is not shown on the Bond register as being a registered owner of any Bonds, with respect to the accuracy of any records maintained by DTC or any Participant, with respect to the payment by DTC or any Participant of any amount with respect to the principal of or interest on the Bonds, with respect to any notice which is permitted or required to be given to owners of Bonds under this Resolution, with respect to the selection by DTC or any Participant of any person to receive payment in the event of a partial redemption of the Bonds, or with respect to any consent given or other action taken by DTC as registered owner of the Bonds. So long as any Bond is registered in the name of Cede & Co., as nominee of DTC, the Registrar shall pay all principal of and interest on such Bond, and shall give all notices with respect to such Bond, only to Cede & Co. in accordance with the Representation Letter, and all such payments shall be valid and effective to fully satisfy and discharge the City's obligations with respect to the principal of and interest on the Bonds to the extent of the sum or sums so paid. No Person other than DTC shall receive an authenticated Bond for each separate stated maturity evidencing the obligation of the City to make payments of principal and interest. Upon delivery by DTC to the Registrar of written notice to the effect that DTC has determined to substitute a new nominee in place of Cede & Co., the Bonds will be transferable to such new nominee in accordance with paragraph (e) hereof.

(c) In the event the City determines that it is in the best interest of the Beneficial Owners that they be able to obtain Bonds in the form of Bond certificates, the City may notify DTC and the Registrar, whereupon DTC shall notify the Participants of the availability through DTC of Bonds in the form of certificates. In such event, the Bonds will be transferable in accordance with paragraph (e) hereof. DTC may determine to discontinue providing its services with respect to the Bonds at any time by giving notice to the City and the Registrar and discharging its responsibilities with respect thereto under applicable law. In such event the Bonds will be transferable in accordance with paragraph (e) hereof.

(d) The Representation Letter sets forth certain matters with respect to, among other things, notices, consents and approvals by registered owners of the Bonds and Beneficial Owners and payments on the Bonds. The Registrar shall have the same rights with respect to its actions thereunder as it has with respect to its actions under this resolution.

(e) In the event that any transfer or exchange of Bonds is permitted under paragraph (b) or (c) hereof, such transfer or exchange shall be accomplished upon receipt by the Registrar of the Bonds to be transferred or exchanged and appropriate instruments of transfer to the permitted transferee in accordance with the provisions of this resolution. In the event Bonds in the form of certificates are issued to owners other than Cede & Co., its successor as nominee for DTC as owner of all the Bonds, or another securities depository as owner of all the Bonds, the provisions of this Resolution shall also apply to all matters relating thereto, including, without limitation, the printing of such Bonds in the form of Bond certificates and the method of payment of principal of and interest on such Bonds in the form of Bond certificates.

Section 3. District Fund; Assessments.

3.01. District Fund. There is hereby created and established the District Fund designated as the "2008 Special Improvement District Fund," which shall be maintained by the Financial Services Manager on the books and records of the City separate and apart from all other funds of the City. Within the District Fund there shall be maintained a separate account for SID No. 1385, designated accordingly (the "District Account"). Within the District Account there shall be maintained three separate accounts, designated as the "Construction Account," "Principal Account" and "Interest Account," respectively.

3.02. Construction Account. There shall be credited to the Construction Account certain proceeds of the sale of the Bonds as provided herein. All proceeds of the Bonds except amounts required to be deposited in the Interest Account shall be deposited in the Construction Account. Any earnings on investment of money in the Construction Account shall be retained therein. All costs and expenses of constructing the Improvements to be paid from proceeds of the Bonds shall be paid from time to time as incurred and allowed from the Construction Account in accordance with the provisions of applicable law, and money in the Construction Account shall be used for no other purpose; provided that upon completion of the Improvements and after all claims and expenses with respect to the Improvements have been fully paid and satisfied, any money remaining in said Construction

Account shall be transferred to said Principal Account in the District Account and used to redeem Bonds as provided in Section 3.03.

3.03. Principal Account and Interest Account. Money in the Principal Account and the Interest Account shall be used only for payment of the principal of and interest on the Bonds as such payments become due or to redeem Bonds. From the proceeds of the Bonds, there shall be deposited in the Interest Account any interest on the Bonds accrued to the date of their delivery and \$266,529.39 representing capitalized interest to be used for the payment of interest on the Bonds on January 1, 2009 and July 1, 2009. Interest income on funds in the Principal and Interest Accounts shall be retained therein and used as any other funds therein.

Upon collection of the installment of principal and interest due on November 30 and May 31 of each fiscal year on the special assessments to be levied with respect to the Improvements in the District, the Financial Services Manager shall credit to the Interest Account so much of said special assessments as is collected as interest payment and the balance thereof to the Principal Account. Any installment of any special assessment paid prior to its due date with interest accrued thereon to the next succeeding interest payment date shall be credited with respect to principal and interest payments in the same manner as other assessments are credited to the District Account. All money in the Interest Account and the Principal Account shall be used first to pay interest due, and any remaining money shall be used to pay Bonds then due and, if money is available, to redeem Bonds in accordance with Section 2.06; provided that any money transferred to a Principal Account from the Construction Account pursuant to Section 3.02 shall be applied to redeem Bonds to the extent possible on the next interest payment date for which notice of redemption may properly be given pursuant to Section 2.06. Redemption of Bonds shall be as provided in Section 2.06, and interest shall be paid as accrued thereon to the date of redemption, in accordance with the provisions of Section 7-12-4206 of the Act.

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

Pursuant to Ordinance No. 1096, the City has undertaken and agreed to provide funds for the Revolving Fund by annually levying such tax or making such loan from the general fund of the City as authorized by Montana Code Annotated, Section 7-12-4222. In the event that the balance on hand in the Revolving Fund fifteen days prior to any date when interest is due on special improvement district bonds or warrants of the City is not sufficient to make good all deficiencies then existing in the special improvement district funds for which the City covenants to make loans from the Revolving Fund, the balance on hand in the Revolving Fund shall be allocated to the funds of the special improvement districts in which such deficiencies then exist in proportion to the amounts of the deficiencies on the respective dates of receipt of such money, until all interest accrued on such special improvement district bonds or warrants of the City has been paid and to the extent of amounts available in the Revolving Fund. On any date when all accrued interest on special improvement district bonds and warrants of the City payable from funds for which the City has covenanted to make loans from the Revolving Fund has been paid, any balance remaining in the Revolving Fund shall be lent or advanced to the special improvement district funds for payment and redemption of bonds to the extent the special improvement district funds are deficient for such purpose, and, if money in the Revolving Fund is insufficient therefor, pro rata, in an amount proportionate to the amount of such deficiency.

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

Section 4. Covenants. The City covenants and agrees with the owners from time to time of each of the Bonds that until all the Bonds and interest thereon are fully paid:

4.01. Compliance with Resolution. The City will hold the District Fund and the Revolving Fund as funds, separate and apart from all of its other funds, and the City, its officers and agents, will comply with all covenants and agreements contained in this resolution. The provisions hereinabove made with respect to the

District Fund and the Revolving Fund are in accordance with the undertaking and agreement of the City made in connection with the public offering of the Bonds and the sale of the Bonds as set forth in Section 1.06.

4.02. Construction of Improvements. The City will do all acts and things necessary to enforce the provisions of the construction contracts and bonds referred to in Section 1.04 and to ensure the completion of the Improvements for the benefit of the District in accordance with the plans and specifications and within the time therein provided, and will pay all costs thereof promptly as incurred and allowed, out of the District Account and within the amount of the proceeds of the Bonds appropriated thereto.

4.03. Levy of Assessments. The City will do all acts and things necessary for the final and valid levy of special assessments upon all assessable real property within the boundaries of the District in accordance with the Constitution and laws of the State of Montana and the Constitution of the United States in an aggregate principal amount not less than \$5,360,000 for the District. Such special assessments shall be levied on the basis or bases prescribed in Resolution No. 08-18742. Interest has been capitalized from the proceeds of the Bonds to pay interest on July 1, 2009. Interest only shall be assessed at an annual rate equal to the sum of: (i) the average annual interest rate borne by the then-outstanding Bonds, plus (ii) one-half of one percent (0.50%) per annum in fiscal year 2009 and shall be payable in semiannual installments on the 30th day of November in 2009 and the 31st of May in 2010. Thereafter, assessments shall be payable in substantially equal semiannual installments of principal and interest at the above-referenced rate over a period of 18 years. The assessments for principal and interest to be levied will be payable on the 30th day of November in each of the years 2010 through 2027, and on the 31st day of May in the years 2011 through 2028, inclusive. All assessments, if not theretofore paid, shall become delinquent on such date unless paid in full. The assessments shall constitute a lien upon and against the property against which they are made and levied, which lien may be extinguished only by payment of the assessment with all penalties, cost and interest as provided in Montana Code Annotated, Section 7-12-4191. No tax deed issued with respect to any lot or parcel of land shall operate as payment of any installment of the assessment thereon which is payable after the execution of such deed, and any tax deed so issued shall convey title subject only to the lien of said future installments, as provided in Montana Code Annotated, Section 15-18-214.

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

If proceeds of the Bonds, including investment income thereon, are applied to the redemption of such Bonds, as provided in Montana Code Annotated, Sections 7-12-4205 and 7-12-4206, or if refunding bonds are issued and the principal amount of the outstanding Bonds of the District is decreased or increased, the City will reduce or increase, respectively, the assessments levied in the respective District and then outstanding pro rata by the principal amount of such prepayment or the increment above or below the outstanding principal amount of bonds represented by the refunding bonds. The City and this Council, its officers and employees will reassess and re-levy such assessments, with the same effect as an original levy, in such reduced or increased amounts in accordance with the provisions of Montana Code Annotated, Sections 7-12-4176 through 7-12-4178.

4.05. Absence of Litigation. There is now no litigation pending or, to the best knowledge of the City, threatened questioning the validity or regularity of the creation of the District, the contracts for construction of the Improvements or the undertaking and agreement of the City to levy special assessments therefor and to make good any deficiency in the collection thereof through the levy of taxes for and the making of advances from the Revolving Fund, or the right and power of the City to issue the Bonds or in any manner questioning the existence of any condition precedent to the exercise of the City's powers in these matters. If any such litigation should be initiated or threatened, the City will forthwith notify in writing the Purchaser, and will furnish the Purchaser a copy of all documents, including pleadings, in connection with such litigation.

4.06. Waiver of Penalty and Interest. The City covenants not to waive the payment of penalty or interest on delinquent assessments levied on property in the District for costs of the Improvements, unless the City determines, by resolution of the City Council, that such waiver is in the best interest of the owners of the outstanding Bonds.