

ARTICLE I - DEFINITIONS

RESOLUTION NO. 794

CITY OF POLSON
LAKE COUNTY, STATE OF MONTANA
SEWER SYSTEM REVENUE BOND, SERIES 2000
\$950,000 PRINCIPAL AMOUNT

A RESOLUTION DIRECTING THE ACQUISITION, CONSTRUCTION, AND EXTENSION OF IMPROVEMENTS TO THE SEWER SYSTEM OF THE CITY OF POLSON, AUTHORIZING AND DIRECTING THE ISSUANCE AND SALE OF A REVENUE BOND TO FINANCE AND PAY FOR A PORTION OF THE COSTS OF THE FOREGOING, PROVIDING THE TERMS OF THE BOND AND CREATING SPECIAL FUNDS AND ACCOUNTS AND PLEDGING CERTAIN REVENUES AS THE SOLE SOURCES OF SECURITY AND PAYMENT FOR SUCH BOND.

WHEREAS, the City of Polson in Lake County, Montana (the "City") is authorized by law, including without limitation Title 7, Chapter 7, Part 44, Montana Code Annotated, to construct, improve, rehabilitate and extend its sewer system (the "System"), to prescribe and collect fees and charges for the services provided by the System, to issue and sell revenue bonds to finance and pay for the costs of constructing, improving, rehabilitating and extending the System, to pledge the revenues of the System for the payment of such revenue bonds, and to make and establish other appropriate covenants and conditions with or for the benefit of the holders of such bonds; and

WHEREAS, the United States Department of Agriculture, Rural Development, is authorized to make certain loans to political subdivisions of the State of Montana, including the City; and

WHEREAS, the City desires to avail itself of the opportunity to acquire financing from Rural Development, for the construction, improvement and extension of the System, as and to the extent authorized by Title 7, Chapter 7, Part 44, MCA, and for that purpose the City Council of the City now desires to adopt this Resolution, as permitted by law, authorizing and directing the construction of the project described herein, the issuance of a revenue bond payable solely out of the revenues of the System to finance the costs of such project, and the sale of such bond to Rural Development;

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF POLSON, LAKE COUNTY, STATE OF MONTANA, AS FOLLOWS:

Section 1.01. Definitions. In this Resolution, unless a different meaning clearly appears from the context;

"Act" means the Title 7, Chapter 7, Part 44, Montana Code Annotated as amended.

"Bond" means the \$950,000 City of Polson Sewer System Revenue Bond, Series 2000, authorized by this Resolution and any other bonds issued pursuant to this Resolution.

"Bondholder" or "Holder" means any person or entity listed in the registration books of the Treasurer as the holder of a Bond pursuant to Section 3.06 of this Resolution, regardless of whether such Bondholder holds the Bond for his own account or as a fiduciary for another person.

"Bond Repayment Account" means the account created by the Treasurer in the Sewer System Fund pursuant to Section 4.01 of this Resolution and treated in the manner described in Sections 4.04 and 5.04 of this Resolution.

"Bond Repayment Reserve Account" means the account created by the Treasurer in the Sewer System Fund pursuant to Section 4.01 of this Resolution and treated in the manner described in Sections 4.05 and 5.04 of this Resolution.

"City" means the City of Polson, Lake County, Montana.

"City Clerk" means the City Clerk.

"Construction Account" means the account created by the Treasurer in the Sewer System Fund pursuant to Section 4.01 of this Resolution and treated in the manner described in Section 5.02 of this Resolution.

"Date of Closing" means the date on which the Bond is sold and delivered by the City to Rural Development.

"Defeasance" means any manner of advance refunding of a bond as described in Section 149(d) of the IRC.

"Governing Body" means the City Council of the City.

"Gross Revenues" include, without limitation, all gross income and receipts, (a) from the rates, fees, charges and rentals imposed on account of the availability, benefit or use of the System as now constituted or hereafter improved, replaced or extended; (b) from penalties and interest on such rates, charges, fees and rentals; (c) from judgments, orders, executions, foreclosures, and settlements in proceedings to collect delinquent payments for use of the System; (d) from sales of

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property acquired for the System; and (e) from the investment of any of the foregoing.

"IRC" means the Internal Revenue Code of 1986, as amended.

"Monthly Apportionment" means the monthly transfers of money between the accounts created pursuant to this Resolution made pursuant to and in the manner prescribed by Section 5.04 of this Resolution.

"Nationally Recognized Bond Counsel" means a firm of attorneys of nationally recognized standing in the field of municipal law whose opinions are generally accepted by purchasers of municipal bonds.

"Net Proceeds" means the amount received by the City as a result of the sale of the Bond, after any deduction for any amount deposited into the Bond Repayment Reserve Account referenced in Section 4.05 but without deduction for any costs incurred by the City except as previously authorized in writing by RD.

"Net Revenues" means, for any period of time, the excess of Gross Revenues over Operating Expenses of the System.

"Operating and Maintenance Account" means the account created by the Treasurer in the Sewer System Fund pursuant to Section 4.01 of this Resolution and treated in the manner described in Section 4.03 and 5.04 of this Resolution.

"Operating Expenses" include, without limitation, the reasonable and necessary administrative expenses of the City relating solely to the System, the costs of the audits and financial reports required by this Resolution; the premiums for insurance and fidelity bonds obtained in connection with the property or operation of the System; the costs of labor, materials, and supplies used for current operation and maintenance of the System; the charges for the accumulation of appropriate reserves, in accordance with sound accounting practices, for the expenses of operating and maintaining the System which are not recurrent monthly but which are reasonably expected to be incurred and paid in the future; legal fees; and all other current expenses, whether paid or accrued, of operating, maintaining, and repairing the System. Operating Expenses shall not include any allowance for depreciation or replacement of capital assets of the System, nor any portion of the salaries or wages paid to any officer or employee of the City except such portion as shall represent reasonable compensation for the performance of duties necessary for the actual operation and maintenance of the System. Operating Expenses do not include interest paid on long term debt.

"Permitted Investments" means the obligations set forth in Section 5.08 of this Resolution that may be purchased with Sewer System Fund moneys.

"Project" means lift station improvements completed in 1999; sludge removal from the lagoons (cells 1 and 2); new aeration system; new outfall line; meter recorder in Riverside Lift Station.

"Project Costs" means those costs which under generally accepted accounting principles are capital costs of the Project, and of such future improvements and extensions of the Project or the System as may be authorized in accordance with law and this Resolution. Project Costs shall include, but are not limited to: payments due for work and materials performed and delivered under construction contracts; architectural, engineering, contract administration, inspection, supervision, fiscal, and legal expenses; the costs of acquiring land and easements or other interests in land; the costs of acquiring and installing equipment in connection with the Project; debt service on interim financing during the period of construction of the Project; reimbursement of any advances made for the foregoing purpose from other City funds and all other expenses incurred in connection with the construction and financing of the Project.

"RD" means the United States Department of Agriculture, Rural Development, its successors and assigns.

"Rebate Amount" means the amount calculated pursuant to Section 5.10 of this Resolution representing excess investment earnings which must be rebated to the United States Treasury.

"Replacement and Depreciation Account" means the account created by the Treasurer in the Sewer System Fund pursuant to Section 4.01 of this Resolution and treated in the manner described in Sections 4.06 and 5.04 of this Resolution.

"Sewer System Fund" means the fund created by the Treasurer pursuant to Section 4.01 of this Resolution.

"Supplemental Resolution" means a resolution adopted by the City pursuant to Article X of this Resolution.

"Surplus Account" means the account created by the Treasurer pursuant to Section 4.01 hereof in the Sewer System Fund and treated in the manner described in Sections 4.07 and 5.04 of this Resolution.

"Surplus Net Revenues" means net revenues available after the Monthly Apportionment to satisfy the requirements of the Bond Repayment Account and the Bond Repayment Reserve Account.

"System" means the sewer system of the City.

"Treasurer" means the Treasurer of the City.

In addition to the foregoing definitions, other terms are defined or described in subsequent sections or subsections of this Resolution and shall, unless the context otherwise requires, have those same meanings at all places in this Resolution and in related documents where those terms appear.

ARTICLE II - AUTHORIZATION OF PROJECT

Section 2.01 Authorization for the Project. The City has applied for and received approval for a loan from RD for \$950,000 for the Project.

The Governing Body finds that construction and operation of the Project is authorized by law, is not contrary to any covenant, agreement, or obligation of the City, and is in the best interests of the residents of the City. The City has received and approved the plans and specifications for the Project and has determined the necessity for the Project.

Section 2.02 Existing Sewer System Revenue Bonds. The City has no existing Sewer System Revenue Bonds.

Section 2.03 Ratification and Repealer. (a) All actions heretofore taken by the City or its officers and agents toward the completion of the Project and the issuance and sale of the Bond (except actions inconsistent with the provisions of this Resolution) are hereby ratified, approved and confirmed.

(b) All provisions of other ordinances and resolutions and all other actions and proceedings of the Governing Body of the City which are in any way inconsistent with the terms and provisions of this Resolution are repealed, amended, and rescinded to the full extent necessary to give full force and effect to the provisions of this Resolution.

Section 2.04 Approval of Project Expenditures. All expenditures for Project Costs, and obligations therefor, made or incurred by City officials in the course of their duties prior to the date of this Resolution are hereby ratified and confirmed.

It is presently estimated by the Governing Body that the Project Costs will be as follows:

Engineering Design & Inspection	\$243,555
Construction	1,285,754
Administration/Financing & Legal	50,500
Contingency	<u>145,191</u>
Total Cost of Project	\$1,725,000

The Governing Body expects to pay the Project Costs from the following sources of funds:

Community Development Block Grant	\$400,000
Existing City Sewer Funds	\$375,000
RD Purchase of Bond in the amount of	\$950,000

Section 2.05 Compliance with Laws. The construction, operation, and maintenance of the Project and the procurement of professional services, construction services and construction materials shall be undertaken and performed in accordance with all applicable federal, state and local statutes, regulations and ordinances including, but not limited to, Section 504 of the Rehabilitation Act of 1978 (29 U.S.C. 794).

Section 2.06 Benefit, Rates and Charges. The City will impose reasonable rates and charges for the availability and use of the System which will, based upon the reasonable estimates and projections of the City's consulting engineer, be sufficient to pay all expenses of operation and maintenance, to provide for depreciation and repairs of the System, to pay installments of principal and interest on the Bond when due and to build and maintain the required reserves as set forth herein.

Section 2.07 Reimbursement of Expenditures. The Internal Revenue Service has issued Section 1.150-2 of the Treasury Regulations (the "Regulations") dealing with the issuance of tax-exempt bonds, all or a portion of the proceeds of which are to be used to reimburse the issuer for the project expenditures made by the issuer prior to the date of issuance of such bonds. The Regulations generally require that, except for preliminary expenditures not more than 20% of the Project Costs for such things as engineering, surveying and soil testing, issuer make a declaration (no later than 60 days after payment of the original expenditures) of its official intent to reimburse itself for such expenditures out of the proceeds of a subsequently issued borrowing, that the borrowing occur and the reimbursement allocation be made from the proceeds of such borrowing within eighteen months of the original expenditure or the date the project is placed in service, and that the expenditure be a capital expenditure or cost of issuance. The City Council desires to comply with the Regulations in the construction of the Project. The City intends to borrow its construction financing from the Montana Board of Investments "INTERCAP Program" and intends to utilize Bond Proceeds to pay off the INTERCAP Program construction loan at the completion of construction. Except as described above, the City does not expect to reimburse itself from Bond Proceeds for any of its prior expenditures. However, if it does so reimburse itself, then all reimbursed expenditures shall be expenditures authorized to be reimbursed by Section 1.150-2 of the Regulations.

ARTICLE III - AUTHORIZATION AND TERMS OF BOND

Section 3.01 Authorization, Issuance and Sale of Bond. Pursuant to the Act and in order to provide moneys for the construction of the Project, the Governing Body of the City hereby authorizes the issuance and sale of the Bond in the aggregate principal amount of \$950,000 to RD as the original purchaser upon the terms and conditions stated herein.

Section 3.02 Interest Rate. The Bond shall bear interest from its date at the rate permitted and agreed by the City and RD on the unpaid principal balance thereof. The interest rate permitted and agreed shall be the lower of the rate in effect at the time of loan approval by RD or at the Date of Closing. The City will request the lower rate from RD. The calculations of payments on the Bond set forth herein are based on the initial committed interest rate of four and one-half

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percent (4.5%) per annum which is the rate in effect at the time of loan approval with a 20 year term and equal, fully amortized monthly payments.

Section 3.03 Payment Schedule. The principal of and interest on the Bond shall be payable in monthly installments with the first installment due one month from the date of the issuance of the Bond and the remaining payments due on the same day each month during the term of the Bond until the principal of and interest on the Bond has been paid in full. Principal and interest payments, which are presently estimated to be in the amount of \$6,014, based on interest at the rate of four and one-half percent (4.5%) per annum, shall be paid on the monthly installment dates for the 20 year term of the Bond. The final monthly installment may be in such lesser or greater amount as is necessary to pay the balance of principal and interest then remaining due.

Section 3.04 Payments Due on Saturdays, Sundays and Holidays. In any case in which the date on which an installment payment is due shall be a Saturday, a Sunday, a legal holiday, or a day on which banking institutions are authorized by law to close, then such installment payment need not be made on such date, but may be made on the next business day that is not a Saturday, a Sunday, a legal holiday, or a day on which banking institutions are authorized by law to close, with the same force and effect as if made on the date on which the installment payment was due. No penalty shall attach to a payment made pursuant to this provision.

Section 3.05 Prepayment and Redemption. The City may at any time prepay all or any part of the principal plus accrued interest on the Bond. Any such prepayment may be made without penalty or premium. Any prepayment shall be identified as such, shall be applied first to accrued interest and then to unpaid principal, and shall not extend or postpone the due date of any subsequent installment payment on the Bond.

Section 3.06 Negotiability, Transfer and Registration. The Bond shall be fully registered as to both principal and interest, and shall be initially registered in the name of and payable to RD. The Bond shall be negotiable, subject to the provisions for registration and transfer contained in this section. No transfer of the Bond shall be valid unless and until (1) the Bondholder, or his duly authorized attorney or legal representative, has executed the form of assignment appearing on the Bond, and (2) the Treasurer, as Bond registrar, has duly noted the transfer on the Bond and recorded the transfer on the Treasurer's registration books. The Treasurer may, prior to noting and recording the transfer, require appropriate proof of the transferor's authority and the genuineness of the transferor's signature. In the event that the City adopts or amends a system of registration as provided in Sections 17-5-1101 through 1123, MCA, such system and any amendments thereto shall be applicable to the Bond except to the extent that such system is inconsistent with this Resolution, in which event the terms of this Resolution shall take precedence. The City shall be entitled to deem and treat the person in whose name a Bond is registered as the absolute owner of the Bond for all purposes, notwithstanding any notice to the contrary, and all payments to the registered holder shall be valid and effectual to satisfy and discharge the City's liability upon such Bond to the extent of the sum or sums so paid.

Section 3.07 Execution. The Bond shall be executed on behalf of the City by the manual signature of the Mayor of the City and shall be manually countersigned by the Clerk. Any or all of such signatures may be affixed at or prior to the Date of Closing. In the event that any of the officers who have signed the Bond cease to be officers of the City before the Bond is issued or delivered, their signatures shall remain binding upon the City. Conversely, the Bond may be signed by an authorized official who did not hold such office on the date of this Resolution.

Section 3.08 Delivery. The Bond shall be delivered to RD, or its attorney or legal representative on the Date of Closing. The purchase price of the Bond shall be not less than the principal amount thereof plus any interest accruing on the Bond from its date to the Date of Closing.

Section 3.09 Security. The Bond shall be paid solely from the Sewer System Fund, to which fund are pledged the Net Revenues generated by the System.

Section 3.10 Priorities. The Bond shall be secured by and payable out of the Net Revenues of the System without preference or priority over Parity Bonds as described in Section 6.01 hereof. If at any time the Net Revenues on hand in the Sewer System Fund are insufficient to pay the principal and interest then due on all Bonds issued under this Resolution, any and all moneys then available shall be applied to payments then due and overdue in order of the due dates of such payments (earlier-due payments being made before later-due payments), and if available moneys are insufficient to make all payments due on the same date, such moneys shall be applied pro rata first to accrued interest and then to principal.

Section 3.11 Form. The Bond shall be in substantially the following form (with appropriate insertions for dates and amounts as described above):

UNITED STATES OF AMERICA
STATE OF MONTANA
City of Polson
Lake County, Montana
Sewer System Revenue Bond

Series 2000

\$950,000

R-1

KNOW ALL PERSONS BY THESE PRESENTS: The City of Polson (the "City"), a duly organized political subdivision of the State of Montana, acknowledges itself to be indebted to and for value received promises to pay to the order of the United States Department of Agriculture or its registered assignee, solely from the Bond Repayment Account of the City's Sewer System Fund, the principal sum of _____ and No/100 Dollars (\$ _____), plus interest from the date hereof at the rate of _____ percent (____%) per annum on the unpaid balance for the Bond's total term of 20 years. Principal and interest shall be paid in consecutive monthly installments on the _____ day of each month, commencing on _____, 19____, and continuing for the term hereof, subject to the rights and duties of prepayment set forth below. Principal and interest in the amount of _____ and 00/100 Dollars (\$ _____) shall be paid on the monthly installment dates for the term of the Bond. The final monthly installment may be in such lesser or greater amount as is necessary to pay the balance of principal and interest then remaining due. Such installment payments shall be made by check or draft mailed 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 has been issued pursuant to and in full conformity with the constitution and laws of the State of Montana, including without limitation Title 7, Chapter 7, Part 44 of the Montana Code Annotated, and in accordance with Resolution No. _____ of the City, duly adopted on _____, _____, (the "Resolution"). Reference is hereby made to the Resolution for a description of the terms and conditions other than those herein, upon which this Bond is issued and secured.

The Bond has been issued for the purpose of providing part of the funds necessary to pay the costs of constructing, improving, extending, and rehabilitating the sewer system of the City (the "System"). The principal of and interest on the Bond is payable solely for the Net Revenues of the System as defined in the Resolution.

The City may at any time prepay all or any part of the principal, plus accrued interest on the Bond. Any such prepayment may be made without penalty or premium. Any prepayment shall be identified as such, shall be applied first to accrued interest and then to unpaid principal, and shall not extend or postpone the due date of any subsequent installment payment on the Bond.

The City has duly authorized and will forthwith construct and complete the Project as defined in the Resolution. The City will establish and collect reasonable rates and charges for the services afforded by the System of which the Project is a part, and has created a Sewer System Fund into which the Gross Revenues of the System, including all revenues from additions, replacements and improvements to the System subsequently constructed or acquired, will be paid. The Sewer System Fund includes a Bond Repayment Account, into which there shall each month be credited, out of the Net Revenues of the System then on hand, amounts sufficient, with similar credits from prior and subsequent months, to meet all payments of principal of and interest on the Bond as they become due. The Sewer System Fund also includes a Bond Repayment Reserve Account, into which account there shall each month be credited out of the remaining Net Revenues of the System certain additional amounts as provided in the Resolution to establish within ten years from the date hereof and maintain therein a reserve in an amount equal to the annual payment of principal and interest due on the Bond in that year, to be used only to pay the principal of and interest on the Bond as such principal and interest become due. Rates and charges for the use of the System will be made from time to time in amounts sufficient to provide for the prompt payment of the reasonable and current expenses of operation and maintenance of the System and to produce Net Revenues, in excess of such expenses, sufficient to pay the principal of and interest on the Bond and any additional bonds hereafter issued and made payable from said Net Revenues. The revenues of the System will also be kept sufficient to provide for the replacement of the System as it deteriorates. Except in so far as parity bonds are authorized in the Resolution, no obligation will be incurred and made payable from the Net Revenues of the System, unless the lien thereof shall be made expressly subordinate to the lien of the Bond on such Net Revenues.

It is hereby certified that all acts, conditions, and things required by law, resolution, or agreement to be done or to have happened prior to or in connection with the issuance of the Bond have been done or have happened, and that the issuance of the Bond does not violate any constitutional or statutory limitation on bonded indebtedness.

IN WITNESS WHEREOF, the City of _____, acting by and through its City Council, has caused this Bond to be executed in its behalf by the signature of the Mayor countersigned by the signature of the Clerk of the City, and has caused this Bond to be dated as of _____.

SAMPLE

Mayor

Countersigned:
SAMPLE

Clerk

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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 Treasurer, as bond registrar, has duly noted the transfer on the Bond and recorded the transfer on the Treasurer's registration books. The City shall be entitled to deem and treat the person in whose name a 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 City's liability upon the Bond to the extent of the sum or sums so paid.

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

The Treasurer of the City of _____, _____ County, Montana, acting as registrar for this Bond, 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 the Bond to the new registered holder noted next to such date, except amounts of principal and interest theretofore paid.

Date of Transfer	Name of new Registered Holder	Signature of Bond Registrar
_____	_____	_____
_____	_____	_____

ARTICLE IV - SEWER SYSTEM FUND ACCOUNTS

Section 4.01 Establishment of Fund and Accounts; Pledge of Revenues. The Treasurer has established or shall establish a fund designated as the Sewer System Fund in the official books of the City, and shall establish the following six accounts within the Sewer System Fund:

- (a) The Construction Account;
- (b) The Operating and Maintenance Account;
- (c) The Bond Repayment Account;
- (d) The Bond Repayment Reserve Account;
- (e) The Replacement and Depreciation Account; and
- (f) The Surplus Account;

All Net Revenues derived from operation of the System are irrevocably pledged, appropriated and shall be credited to the Sewer System Fund and the accounts listed above until the principal of and interest on the Bond has been fully paid or the City's obligation with respect to the Bond has been discharged as provided in this Resolution.

Section 4.02 Construction Account. Money in the Construction Account shall be used only to pay Project Costs and debt service on the Bond, and shall be held in bank accounts and disbursed only in the manner prescribed in Section 5.02 of this Resolution.

Section 4.03 Operating and Maintenance Account. Money held in the Operating and Maintenance Account shall be disbursed only to pay the reasonable and necessary Operating Expenses of the System and to make the transfers of money required by Section 5.04 of this Resolution. Money may also be transferred from the Operating and Maintenance Account to the Bond Repayment Account to be used to make prepayments with respect to the Bond or to redeem the Bond. Money may also be transferred from the Operating and Maintenance Account to make payments required to be made for Rebate Amounts due pursuant to the IRC.

Section 4.04 Bond Repayment Account. Money held in the Bond Repayment Account shall be disbursed only to meet the regular installment payments of principal and interest on the Bond as they become due or to redeem or make prepayments with respect to the Bond. If on any regular installment payment date the money in the Bond Repayment Account is insufficient to make the installment payment due, then an amount equal to the amount of the insufficiency shall be transferred to the Bond Repayment Account from (i) the Operating and Maintenance Account, (ii) the Bond Repayment Reserve Account, (iii) the Replacement and Depreciation Account, (iv) the Surplus Account, and (v) the Construction Account, in that order.

Section 4.05 Bond Repayment Reserve Account. Money held in the Bond Repayment Reserve Account shall be disbursed only to the Bond Repayment Account, and only for the purpose of eliminating any insufficiency existing in the Bond Repayment Account at the time

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f any Monthly Apportionment or regular installment payment date, pursuant to Section 5.04 of this Resolution.

Section 4.06 Replacement and Depreciation Account. Money held in the Replacement and Depreciation Account shall be disbursed only for the following purposes: (a) for the replacement or renewal of worn out, obsolete or damaged property or equipment pertaining to the system; (b) to eliminate any insufficiency in the Bond Repayment Account on any regular installment payment date, pursuant to Section 5.04 of this Resolution; (c) if directed by the governing Body, for transfer to the Bond Repayment Account or the Bond Repayment Reserve Account pursuant to Section 5.04 of this Resolution to eliminate any insufficiency existing at the time of any Monthly Apportionment; and (d) if directed by the Governing Body, for transfer to the Bond Repayment Account to be used to redeem or make prepayments with respect to the Bond.

Section 4.07 Surplus Account. Money held in the Surplus Account, when not required to restore a current deficiency in the Bond Repayment Account or the Bond Repayment Reserve Account, may be disbursed only for the redemption or prepayment of the Bond, to cover insufficiencies in the Bond Repayment Reserve Account, pay for repairs of or construction and installation of improvements or additions to the System or to make payments of Rebate Amounts.

ARTICLE V - DEPOSITS, TRANSFERS, INVESTMENTS AND WITHDRAWALS

Section 5.01 Deposit of Bond Proceeds. The entire Net Proceeds of sale and delivery of the Bond shall be deposited at closing in the Construction Account.

Section 5.02 Disbursements from Construction Account. In the event grant funds are available from any governmental agencies, then said funds, funds obtained from interim financing and the proceeds of the Bond hereby authorized shall be deposited in the Construction Account as authorized by the Governing Body from time to time for expenses approved by the RD, and only for the purposes for which said the Bond is issued. Any interest earnings on funds invested shall be deposited in the Construction Account. The City's share of any liquidated damages and other monies paid by defaulting contractors or their sureties will be deposited in the Construction Account to assure completion of the project. When the construction of the facility has been completed and all interim financing and construction costs have been paid in full, any balance remaining in the Construction Account will be used to prepay the Bond, unless the amount remaining is insufficient to pay the Bond, whereupon the funds will be transferred to the Reserve Account.

Section 5.03 Deposit of Gross Revenues. The Treasurer shall deposit all Gross Revenues of the System into the Operating and Maintenance Account immediately upon their receipt, and shall disburse such revenues from the Operating and Maintenance Account only in the manner prescribed by Section 5.04 of this Resolution.

Section 5.04 Monthly Apportionment. Each month the Treasurer shall transfer money between the accounts created pursuant to Section 4.01 of this Resolution, which monthly transfers (the "Monthly Apportionment") shall be made as follows:

(a) First, all Operating Expenses then due and owing or subject to accrual (or which will become due and owing or subject to accrual prior to the next Monthly Apportionment) shall be paid from the Operating and Maintenance Account or accrued;

(b) Second, an amount equal to the monthly installment payment due on the Bond (plus the amount of any such transfers required in previous months that were not made due to lack of funds) shall be transferred from the Operating and Maintenance Account to the Bond Repayment Account;

(c) Third, if the money in the Operating and Maintenance Account is insufficient to make the transfer required by subparagraph (b), then an amount equal to the amount of the insufficiency shall be transferred to the Bond Repayment Account from (i) the Bond Repayment Reserve Account or (ii) if directed by the Governing Body, the Replacement and Depreciation Account or the Surplus Account;

(d) Fourth, beginning with the first Monthly Apportionment made in the month following the Date of Closing, the amount of six hundred two and NO/100 Dollars (\$602) shall be transferred from the Operating and Maintenance Account to the Bond Repayment Reserve Account, until the balance in the Bond Repayment Reserve Account is seventy-two thousand one hundred sixty-eight and NO/100 Dollars (\$72,168) thereafter the \$602 per month shall be transferred to the Replacement and Depreciation Account;

(e) Fifth, if the money in the Operating and Maintenance Account is insufficient to make the transfer required by subparagraph (d), then an amount equal to the amount of the insufficiency shall be transferred to the Bond Repayment Reserve Account from the Replacement and Depreciation Account or the Surplus Account, if the Governing Body authorized such transfer;

(f) Sixth, there shall be transferred from the Operating and Maintenance Account to the Replacement and Depreciation Account Surplus Net Revenues in an amount which the Governing Body shall by resolution have found to be required for the accumulation of a reasonable fund for replacement or renewal of worn out, obsolete or damaged property or equipment pertaining to the System, and for the costs of improvements, or repairs or additions to the System; and

(g) Seventh, any amount of the Surplus Net Revenues in excess of the current requirements of the Replacement and Depreciation Account shall be credited to the Surplus Account.

Section 5.05 Funding from Other Sources. Nothing in this Resolution shall prevent the City from depositing money from sources other than Gross Revenues into the Sewer System Fund or any of its Accounts in addition to the transfers and apportionments required by this Resolution. Such voluntary deposits shall be treated as Gross Revenues and shall not thereafter be

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withdrawn except in accordance with this Resolution. Such voluntary deposits of other money to the Bond Repayment Account or the Bond Repayment Reserve Account may be made in lieu of an equal amount of transfers or apportionments of Net Revenues to such accounts as required by this Resolution.

Section 5.06 Segregation of Moneys. All Net Proceeds, Net Revenues, and other moneys received by the City pursuant to this Resolution and any Supplemental Resolution are to be deposited into the accounts within the Sewer System Fund, and all Permitted Investments purchased with moneys deposited therein, shall at all times be kept segregated and set apart from all other funds of the City. No such moneys shall at any time be transferred from any account in the Sewer System Fund to any other fund of the City, nor shall any moneys at any time be loaned to other City funds or invested in other obligations payable from other funds, except as provided in this Resolution. None of such moneys or investments shall at any time or under any circumstances constitute public funds of the City, nor shall they be subject to lien or attachment by any creditor (except by a creditor acting as or on behalf of a Bondholder). However, the requirements of this section shall not be construed in such a manner as to prevent the aggregation or pooling of moneys in the Sewer System Fund or one or more of its accounts for the purpose of investing such funds as permitted by this Resolution, so long as such aggregation or pooling, and any investments so made, do not cause this Bond to become an "arbitrage bond" under IRC Section 148(a).

Section 5.07 Deposit of Moneys. The Treasurer shall deposit all money held in the Sewer System Fund pursuant to this Resolution in one or more financial institutions qualified to serve as depositories for public funds under Section 7-6-201, MCA. The balance in such deposit accounts, except portions guaranteed by federal insurance, shall at all times be secured in the manner provided by Section 7-6-207, MCA, to the full extent of such uninsured portion or to the maximum extent permitted by law.

Section 5.08 Investment of Moneys. Sewer System Fund moneys may be invested if and to the extent that the City does not need such moneys to be available for immediate use, in direct obligations of the United States Government, savings or time deposits, or other investments authorized for Cities in Montana.

Section 5.09 Investment Income. Interest, income and profit on deposits and investments of moneys in the Construction Account shall be deposited in the Bond Repayment Reserve Account; provided, however, that if the amount in such Bond Repayment Reserve Account is equal to the maximum level required by Section 5.04(d), then such interest, income and profit shall be retained in the Construction Account. Except as otherwise provided with respect to the Rebate Amount, interest, income and profits on deposits and investments of moneys in the accounts in the Sewer System Fund shall be deposited in the Operating and Maintenance Account.

Section 5.10 Arbitrage Limitation. The City hereby covenants and agrees with the Bondholder that no part of the proceeds of the Bond or any other funds held by the City shall at any time be used directly or indirectly to acquire securities or obligations the acquisition of which would

cause the Bond to be or become an "arbitrage bond" as defined in IRC Section 148(a); provided, however, that the City may at any time request, receive, and rely with full acquittance upon the opinion of Nationally Recognized Bond Counsel that a proposed acquisition will not cause the Bond to be or become an arbitrage bond. Any fees and expenses incurred in providing such opinion of Nationally Recognized Bond Counsel shall be paid by the City and may be paid out of the Operating and Maintenance Account.

The Governing Body of the City recognizes that certain arbitrage profits must be rebated to the United States Treasury Department. The Governing Body agrees to obtain the assistance of Nationally Recognized Bond Counsel in the preparation and passage of any Supplemental Resolution necessitated by the arbitrage requirements of the IRC or promulgation of the Treasury Regulations thereunder. The City hereby covenants to make any determinations, retain records and rebate to the United States Treasury any Rebate Amounts determined to be due at the times and in the manner required by Section 148(f) of the IRC. The Governing Body of the City, at the time of passage of this Resolution, anticipates that the City will and intends to qualify for the "Small Issuer Exception to the Rebate Requirement" described in Section 1.148-8 of the U.S. Treasury Regulations.

Section 5.11 Payment Arrangements. The Treasurer will make payments to RD by electronic funds transfer through RD's Preauthorized Debt payment process.

ARTICLE VI - ADDITIONAL BONDS

Section 6.01 Parity Bonds. The City reserves the right and privilege of issuing, pursuant to a Supplemental Resolution or resolutions, additional bonds on a parity with and having a lien equal in rank to that of this Bond against the Sewer System Fund and the accounts therein and which are payable equally and ratably therefrom without preference, priority, or distinction because of date of issue. Such additional bonds (hereinafter called "Parity Bonds") may be issued only for the purposes and in accordance with the conditions set forth in Sections 6.02, 6.03 and 6.04 of this Resolution.

Section 6.02 Completion Parity Bonds. Parity Bonds may be issued for the purpose of financing the cost or estimated cost of completing the Project (hereinafter called "Completion Parity Bonds"), provided that the scope of the Project has not changed, that other available moneys are insufficient for completing the Project, and that the Completion Parity Bonds together with available moneys will be sufficient to complete the Project.

Section 6.03 Improvement Parity Bonds. (a) Parity Bonds may be issued to finance the cost or estimated cost of providing any further improvement, extension, or rehabilitation of the System (hereinafter called "Improvement Parity Bonds"), provided that the Net Revenues of the System for the fiscal year preceding the issuance of such Improvement Parity Bonds equaled at least 120% of the average annual debt service on the Bond and Parity Bonds to be outstanding immediately after the issuance of such Improvement Parity Bonds.

(b) For the purposes of the foregoing computation, Net Revenues shall be those shown on the official books and records of the City for the applicable period; provided, however, that if the rates and charges for services provided by the System have been changed or will be changed after the commencement of such period, then the rates and charges which will be in effect at the time of issuance of the Improvement Parity Bonds shall be applied to the quantities of service actually rendered and made available during the period in order to ascertain the Gross Revenues, from which there shall be deducted, to determine the Net Revenues, the actual costs of operation and maintenance during the period as shown on the official books and records of the City plus any additional annual costs of operation and maintenance which the Engineer of the City reasonably estimates will be incurred because of the improvement or extension of the System which is proposed to be constructed from the proceeds of the Improvement Parity Bonds or less any savings anticipated by the utilization of the said improvements. Improvement Parity Bonds may not be issued if the City is in default in any payment of principal or interest on any outstanding Bonds payable from the Sewer System Fund or if there exists a deficiency in any of the balances required to be kept pursuant to this Resolution.

Section 6.04 Refunding and Defeasance. The City may issue Parity Bonds to currently refund the Bond or Parity Bonds provided that "advance refunding" of the Bond may not occur. For the purposes of meeting RD requirements, no "defeasance" of the Bond may occur as that term is described in RUS Regulations, Part 1780, subsection 1780.94(j)(4).

If, at any time, it shall appear to RD that the City is able to currently refund the amount of the Bond then outstanding, in whole or in part, by issuance and sale of bonds to responsible cooperative or private credit sources, at reasonable rates and terms for loans for similar purposes and periods of time, the City will, upon request of RD, apply for and accept such financing in sufficient amount to repay the Bond.

Section 6.05 Subordinate Bonds. Nothing in this Resolution shall preclude the City from issuing, pursuant to a separate resolution or resolutions, additional bonds when necessary for the improvement, extension, or rehabilitation of the System, provided that such additional bonds (hereinafter called "Subordinate Bonds") are expressly made subordinate to the lien of the Bond and Parity Bonds authorized by this Resolution on the Net Revenues of the System and all accounts of the Sewer System Fund.

Section 6.06 Approval of Counsel. Any registered holder of the Bond or Parity Bonds whose aggregate unpaid principal amount constitutes at least ten percent (10%) of the aggregate unpaid principal amount of the Bond and of all outstanding Parity Bonds shall have the right, prior to the issuance of any Parity Bonds or Subordinate Bonds, to require the City to furnish, at the City's expense, either or both of the following:

(a) An opinion of an attorney duly licensed to practice law in Montana to the effect that the City is not then in default on the Bond or any Parity Bond, covenant or any other term or condition of this Resolution;

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(b) The opinion of a Nationally Recognized Bond Counsel to the effect that the issuance of the proposed bonds will not violate any covenant, term, or condition of this Resolution, and that the interest on the Bond and Parity Bonds then outstanding shall be and remain exempt from taxation under IRC Section 103.

ARTICLE VII - GENERAL COVENANTS

Section 7.01 Resolution Constitutes Contract Between Bondholder and City.

(a) This Resolution constitutes and shall be deemed to be a contract between the City and the Bondholder, and the pledges and the covenants made by the City in this article or elsewhere in this Resolution shall be for the benefit, protection and security of the Bondholder.

(b) No recourse for the payment of any part of the principal of or interest on the Bond or for the satisfaction of any liability arising from the issuance, sale, purchase or ownership of the Bond, or any liability arising from this Resolution, shall be had against any officer, member, employee, or agent of the City in his or her individual capacity, all such liability being hereby expressly released and waived as a condition of and as part of the consideration for the execution of this Resolution and the issuance of the Bond.

(c) Nothing in this Resolution, express or implied, is intended or shall be construed to confer upon or to give to any person or corporation other than the Bondholder any right, remedy, or claim under or by any reason of this Resolution, and the covenants, stipulations, and agreements contained in this Resolution are and shall be for the sole and exclusive benefit of the Bondholder.

Section 7.02 Faithful Performance in General. The City will faithfully perform at all times any and all covenants, undertakings, stipulations, and provisions contained in this Resolution and in the Bond issued hereunder; will pay or cause to be paid to the Bondholder, the principal of and interest on the Bond, on the dates and in the place and manner prescribed in such Bond, provided that such payments will be made solely out of the revenues pledged for the payment thereof pursuant to this Resolution; will not issue any bonds in any manner other than in accordance with the provisions of this Resolution; and will not suffer or permit any default to occur under this Resolution, but will faithfully observe and perform all the conditions, covenants, and requirements hereof. The City will take all steps reasonably necessary to insure that its officers, employees, and agents act in accordance with and in furtherance of the purposes, covenants, and conditions of this Resolution, and the City will adopt and carry out such further resolutions as may be reasonably requested by RD for the purpose of better carrying out the purpose and intent of this Resolution.

Section 7.03 Authority of the City. The City is duly authorized under the constitution and laws of the State of Montana to create and issue the Bond and to adopt and be bound by this Resolution. All actions and proceedings that must be taken by the City for the authorization and issuance of the Bond and the adoption and delivery of this Resolution have been duly and effectively taken, and the Bond will be a valid and enforceable obligation of the City in accordance with its terms.

9.7
Section 7.04 Pledge. (a) To secure payment of the principal of and interest on the Bond, the City hereby irrevocably pledges and confirms to the Bondholder and grants the Bondholder a security interest in the following revenues, assets and moneys:

- (1) The Net Proceeds of the Bond, as defined in this Resolution;
- (2) All moneys and investments in the Sewer System Fund and all of its accounts as established pursuant to this Resolution;
- (3) Any insurance payments made to the City on account of the loss of or damage to any part of the System or the Project;
- (4) Any other revenues or property which may in the future be pledged, confirmed, assigned, transferred or conveyed as additional security under this Resolution.

(b) This pledge is valid and binding from the date of the adoption of this Resolution by the Governing Body, and all revenues, assets and moneys so pledged and hereafter received by the City for the System shall immediately be subject to the lien created by the pledge. It is the intention of the City that the lien and security interest created by this pledge shall be valid and binding against all parties having claims of any kind, whether in tort, contract or otherwise, against the City.

(c) If the City shall pay or cause to be paid the principal of and interest due on the Bond at the times and in the manner required or permitted in this Resolution, and shall observe and perform all of the covenants made by it in this Resolution, then this pledge and the rights and interests granted by this Resolution shall cease, terminate and be void.

Section 7.05 Operation of the System. The City will continue to hold, maintain, and operate the System as a public utility and convenience, and will keep the System and its Net Revenues free from all liens other than the liens granted or authorized by this Resolution. The City will not establish or authorize the establishment of any other sewer system for the public or other services in competition with any of the services supplied by the facilities of the System.

Section 7.06 Charging and Collection of Fees. The City will maintain, revise, charge, and collect rates and other charges for all service furnished and made available by the System in the manner and to the extent now or hereafter provided by law, according to schedules such that the Gross Revenues derived from the System will be sufficient, when combined with other available funds, to pay when due all expenses of the operation and maintenance of the System, to pay all principal of and interest on the Bond, to provide for the establishment and maintenance of adequate reserves in the amounts required by this Resolution, to provide an allowance adequate for recurring renewals and replacements of the System, and to fulfill the terms of all other agreements with holders of the City's bonds and other obligations.

Section 7.07 Property Insurance. The City will cause all building, properties, fixtures, and equipment constituting a part of the System to be kept insured, during and after construction, with a reputable insurance carrier or carriers qualified under the laws of Montana, in such amounts as are ordinarily carried, against loss or damage by fire, explosion, and such other hazards or risks as are ordinarily insured against by public utilities owning and operating properties of similar character and size. The proceeds of all such insurance shall be available for the repair, replacement, and reconstruction of damaged or destroyed property, and, until paid out in making good for such loss or damage, are pledged as security for the Bond. All insurance proceeds received in excess of amounts required for restoration of the loss or damage compensated thereby shall be and become part of the revenues appropriated and pledged to the Sewer System Fund. If for any reason the insurance proceeds are insufficient for the repair, replacement, and reconstruction of the insured property, the City shall supply the deficiency from revenues on hand in the Replacement and Depreciation Account; and if such deficiency results from breach of the covenant of this section it will be supplied from any other available City funds.

Section 7.08 Liability Insurance and Surety Bonds. The City will cause insurance to be carried against liability of the City and its agents and employees for injuries (including death) to persons and damage to property resulting from the construction, operation, maintenance, improvement or extension of the System, in amounts customarily carried by similar municipalities for similar systems. The City also will cause worker's compensation insurance to be carried sufficient to comply with the laws of the state of Montana pertaining thereto. The City also will cause all persons handling money and other assets of the Sewer System Fund to be bonded adequately for the faithful performance of their duties, and to account for and to pay over such money and assets to the City. All amounts received under such insurance and bonds shall be applied to the loss or damage covered thereby.

Section 7.09 Disposition of Property. The City will not mortgage, lease, sell, or otherwise dispose of any real or personal property pertaining to the System, unless:

(a) Prior to or simultaneous with such disposition all outstanding bonds shall be discharged as provided in Article IX of this Resolution; or

(b) (i) the property to be disposed of is unserviceable, inadequate, obsolete, or no longer required for use in connection with the System, (ii) the disposition will not prevent the City from complying with any covenant or condition of this Resolution, and (iii) all proceeds of the disposition are treated in the same manner as Gross Revenues of the System.

Section 7.10 Maintenance of Books and Accounts/Audits. The Treasurer shall keep or cause to be kept books of record and account in which complete and correct entries shall be made of all receipts, disbursements and other transactions relating to the System and the accounts created by this Resolution. Such books shall be based on the same fiscal periods as those utilized by the City, and shall be subject to inspection by any Bondholder or the representative, duly authorized in

writing, of any Bondholder. The City recognizes it is subject to, and agrees to comply with, the State of Montana Single Audit Act in Title 2, Chapter 7, Part 5, MCA.

Section 7.11 Information Reports to U.S. Treasury Department. The City agrees to promptly provide and/or cooperate in providing, any reports required by the U.S. Treasury Department relating to the Bond.

Section 7.12 Merger with other Systems. In the event other public entities in the immediate area of the City apply for and receive RD financing for a sewer system which could feasibly connect to the City's sewer system, then the City agrees to merge with such other systems if physically, legally and economically possible. The term "merge" as used herein includes allowing a neighboring federally funded sewer system to purchase and utilize excess capacity of the System.

Section 7.13 Service and Billing. The City will provide service from the System to all areas of the City where it is legally and economically feasible and will charge equitable fees for such service. The charges for sewer services will be billed at least quarterly, and if a bill is not paid within the time frame established by the City, or if the customer fails to comply with all rules and regulations established for the System within the time frame established by the City after notice of violation thereof (which notice shall be given promptly upon discovery of any such violation), the services to the premises involved may be discontinued and may not be resumed until payment of all past-due bills for sewer services and compliance with all such rules and regulations.

Section 7.14 Rural Development Approval of Additional System Improvements. Any modifications or improvements to the System shall be subject to the review and prior approval of RD after the City has submitted preliminary plans.

ARTICLE VIII - DEFAULT AND REMEDIES

Section 8.01 Events of Default. Any one or more of the following events shall constitute an "Event of Default" under this Resolution:

(a) Nonpayment of any principal of or interest on the Bond within thirty (30) days after the date on which such principal and interest was due and payable;

(b) Default by the City in the due and punctual performance of any of the covenants, conditions, agreements, and provisions contained in the Bond, this Resolution, or in any resolution supplemental hereto, which are to be performed by the City, if such default shall have continued for a period of thirty (30) days after written notice, specifying such default and requiring the same to be remedied, shall have been given to the City by any Bondholder;

(c) The filing of a petition by the City under the laws of the United States seeking protection under the Bankruptcy Code or the consent of the City to the appointment of a receiver, trustee, or debtor in possession of all or a major portion of its property; and

(d) Any event (other than amendment of the Internal Revenue Code) causing interest on the Bond to be subject to federal income taxation.

Section 8.02 Remedies. (a) Upon the occurrence and continuance of an Event of Default, the Bondholder shall have the right, either at law or in equity, by suit, action, or other proceeding, to protect and enforce his rights and to compel the performance of any and all covenants and conditions required herein to be performed by the City and its officers and employees, including but not limited to the fixing and maintaining of rates, fees, and charges, the collection or proper segregation of revenues, and the application and use thereof. The Bondholder shall have the right to direct the time, method, and place of conducting any proceeding for any remedy available to Bondholder or the exercise of any power conferred on the Bondholder, and the right to waive a default in the performance of any covenant or condition, and its consequences, except in payment of the principal of or interest on any Bond when due.

(b) Nothing herein shall impair the absolute and unconditional right of any Bondholder to receive each payment of the principal of and interest on such Bond, as such principal and interest, respectively, become due, and to institute suit for any such payment. Any court with jurisdiction of the action may appoint a receiver to administer the System on behalf of the City with the power to charge and collect rates, fees, and charges sufficient to provide for the payment of any bonds, or obligations outstanding against the System, and with power to apply the revenues in conformity with this Resolution and the laws of the State of Montana.

(c) No remedy conferred upon or reserved to a Bondholder by the terms of this Resolution is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given by this Resolution or now or hereafter existing at law, in equity or by statute. No delay or omission in the exercise of any right or power accruing upon any default or Event of Default shall impair any such right or power or be construed to be a waiver of or acquiescence in any such default or Event of Default, and such right and power may be exercised from time to time and as often as may be deemed expedient. No waiver of any default or Event of Default under this Resolution shall extend to or affect any subsequent default or Event of Default, nor impair any rights or remedies consequent thereon. In case a Bondholder shall have proceeded to enforce any right under this Resolution, and the proceedings shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Bondholder, then and in every such case the City and the Bondholder shall be restored to their former positions and rights and duties hereunder and the same shall continue as if no such proceedings had been taken.

ARTICLE IX - DISCHARGE

Section 9.01 Discharge by Payment. When all principal of and interest due and payable on the Bond has been paid in the manner required or permitted by this Resolution, then the Bond shall cease to be entitled to any lien, pledge, benefit or security under this Resolution and all

pledges, covenants and other rights granted to the Bondholder by the Resolution shall cease, terminate and be discharged and satisfied.

ARTICLE X - AMENDMENTS

Section 10.01 Amendments without Bondholder Consent. The City reserves the right to amend or supplement this Resolution by adopting further resolutions from time to time, and at any time, for any one or more of the following purposes:

- (a) To add covenants and agreements for the protection of the Bondholder;
- (b) To cure any ambiguity or correct any defect or inconsistent provision in this Resolution;
- (c) To subject additional revenue, properties, or collateral to the terms of this Resolution;
- (d) To set forth terms and conditions of Parity Bonds or Subordinate Bonds not contrary to this Resolution;
- (e) To preserve the exemption of interest on the Bond from federal and/or state income taxation and to preserve the right of the City to continue to issue other bonds, debts, or other obligations of any nature the interest income of which is likewise exempt from federal and/or state income taxation;
- (f) To surrender or waive any right or power reserved to or conferred upon the City by this Resolution; or
- (g) To make any other change or addition to this Resolution which the Governing Body may deem necessary or desirable, which is not inconsistent with this Resolution, and which does not adversely affect the interests of the Bondholder.

Section 10.02 Amendments with Bondholder Consent. Except as provided in Section 10.01 of this Resolution, the City shall not have the right or the power to amend this Resolution or to adopt any supplemental resolutions, unless, after notice to the Bondholder, such amendment or supplemental resolution is approved by the holder of the Bond.

Section 10.03 Notice and Consent. (a) Notice of any proposed amendment or supplement to this Resolution, which requires consent of the Bondholder pursuant to Section 10.02 hereof, shall be given in the manner prescribed by Section 11.01 of this Resolution not less than thirty (30) days prior to the adoption of such amendment or supplement to the holder of the Bond at the time of such notice. Any written consent to an amendment may be embodied in and evidenced by one or any number of concurrent written instruments of substantially similar tenor signed by an agent of the Bondholder duly appointed in writing, and shall become effective when delivered to the Treasurer.

Any consent by a Bondholder shall bind him and every future holder of the same Bond with respect to any amendment adopted by the City pursuant to such consent.

(b) The fact and date of execution by any person of any such consent may be proved by the affidavit of the witness to such execution or by the certificate of any Notary Public or other officer authorized to take acknowledgments of deeds, certifying that the person signing it acknowledged to him the execution thereof.

ARTICLE XI - OTHER PROVISIONS

Section 11.01 Notices. Any request, demand authorization, consent, direction, notice, or other document provided or permitted by this Resolution shall be sufficient for such purpose when mailed by certified mail, return receipt requested, and with sufficient postage prepaid, to the following addresses (or to such other address as may be provided by any party upon notice to all other parties), but shall not be deemed to be effective until receipt:

To the City: City of Polson
Attn: Mayor
P. O. Box 92
Polson, MT 59212

To RD: Rural Development
USDA
900 Technology Blvd.
P. O. Box 850
Bozeman, MT 59771

To any Bondholder: The name and address of such Bondholder as it appears in the bond register.

Section 11.02 Arbitrage Certificate. The Mayor and Clerk, being the officers of the City charged with the responsibility of issuing the Bond, are authorized and directed to execute and deliver to the purchaser a certification stating the reasonable expectations of the City, on the date of issue and delivery of the Bond authorized by this Resolution, regarding the amount and the use of the proceeds of the issue. Such expectations must be such that the Bond will not be an "arbitrage bond" as defined in IRC Section 148(a). The certificate will also state the City's intent to maintain the tax-exempt nature of the interest income on the Bond and to do all things necessary to maintain such tax-exemption. Any additional Bonds issued under this Resolution will be required to similarly comply with this section.

Section 11.03 Transcript. The officers of the City are hereby authorized and directed to prepare and furnish to the purchasers of the Bond, and to the attorneys approving the legality of the issuance of the Bond, certified copies of all proceedings and records of the City

relating to the Bond and to the organization of the City, and of reports on the financial condition of the City, and such affidavits, certificates, and other information and documents as may be requested or required to carry out the purposes of this Resolution; and all such certified copies, affidavits and certificates, including any heretofore furnished, shall constitute representations of the City as to the truth of the matters contained therein.

Section 11.04 Severability. In case any one or more of the provisions contained in this Resolution or in the Bond shall for any reason be held to be invalid, illegal, or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provisions of this Resolution, but this Resolution shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

Section 11.05 Official Intent on Reimbursement. (a) The Department of Treasury has promulgated final regulations governing the use of proceeds of tax-exempt bonds, all or a portion of which are to be used to reimburse an issuer for project expenditures made by the issuer prior to the date of issuance of such bonds. Those regulations (Treasury Regulations, Section 1.150-2) (the "Regulations") require that the issuer adopt a statement of official intent to reimburse an original expenditure not later than 60 days after payment of the original expenditure. The Regulations also generally require that the bonds be issued and the reimbursement allocation made from the proceeds of the bonds within 18 months after the date the expenditure is paid or the date the project is placed in service or abandoned, but in no event more than three years after the date the expenditure is paid. The Regulations generally permit reimbursement of capital expenditures and costs of issuance of the bonds.

(b) The City does not currently expect to reimburse any expenditures made for costs of the Project out of the proceeds of the Bond after the date of payment of all or a portion of the costs of the Project. All reimbursed expenditures shall be capital expenditures, a cost of issuance of the Bond or other expenditures eligible for reimbursement under Section 1.150-2(d)(3) of the Regulations.

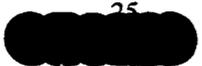
(c) The City anticipates obtaining construction financing for the portion of the Project to be funded from the RD loan from the Montana Board of Investments through its INTERCAP Program. The City anticipates paying the INTERCAP Program construction financing from the proceeds of the issuance of the Bond after the Project is complete and accepted by the City.

This Resolution was adopted by the Governing Body of the City of Polson, Lake County, Montana, on the 3rd day of April, 2000.

IN WITNESS WHEREOF, the Mayor has executed this Resolution and the Clerk has so attested.

Approved:

Attest:



Aggi G. Loeser
Clerk

Michael Lies
Mayor

The following Council Members voted in favor of the Resolution:

Tom Vergeront, Mark MacDonald, Clint White,
Roberta Thick, Fred Funke, Dan Morrison

The following Council Members voted against the Resolution:

-0-

The following Council Members were absent or abstained:

-0-

STATE OF MONTANA)
) ss.
COUNTY OF LAKE)

On this 4th day of April, 2000, before me a Notary Public for the State of Montana, personally appeared Michael Lies, Mayor and Aggi G. Loeser, City Clerk known to me to be the person(s) whose names are subscribed to the within instrument and acknowledged to me that they executed the same.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my Notarial Seal the day and year first above written.

SEAL [Signature]
Notary Public for the State of Montana
Residing at Polson
My Commission Expires: 08-03-2002
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