

AGENDA ITEM SUMMARY

DATE: 11/03/2014

DEPARTMENT: Admin

DEPT. HEAD SIGNATURE: HD

SUBJECT:

Approval of documents necessary to obtain sewer bond from Idaho Bond Bank Authority

AUTHORITY: ID Code _____ IAR _____ City Ordinance/Code _____
(IF APPLICABLE)

BACKGROUND/SUMMARY OF ALTERNATIVES CONSIDERED:

The attached documents include:

1. Sewer Bond Ordinance No. 1165, authorizing Hailey's bonded indebtedness for sewer system Improvements, and Summary of Ordinance..
2. Supplemental Sewer Bond Ordinance No 1166, authorizing Hailey's bonded indebtedness for the 2014 Sewer Solids Handling Project, and Summary of Ordinance
3. Loan Agreement with Idaho Bond Bank Authority for parity bonds in the not-to-exceed amount of \$6,545,000

FISCAL IMPACT / PROJECT FINANCIAL ANALYSIS:

Approved documents will allow the City of Hailey to borrow funds from the Idaho Bond Bank Authority, as approved by voters in May 2014, for wastewater system improvement.

The bond market has improved since we structured the bond last March. Attached is a comparison of the March proceeds from the bond sale compared to the current bond market, six months later. This favorable position will allow us to pay a lower annual debt service payment than was budgeted.

ACKNOWLEDGEMENT BY OTHER AFFECTED CITY DEPARTMENTS: (IF APPLICABLE)

- | | | |
|---|--|---|
| <input type="checkbox"/> City Administrator | <input type="checkbox"/> Library | <input type="checkbox"/> Benefits Committee |
| <input type="checkbox"/> City Attorney | <input type="checkbox"/> Mayor | <input type="checkbox"/> Streets |
| <input type="checkbox"/> City Clerk | <input type="checkbox"/> Planning | <input type="checkbox"/> Treasurer |
| <input type="checkbox"/> Building | <input type="checkbox"/> Police | _____ |
| <input type="checkbox"/> Engineer | <input type="checkbox"/> Public Works, Parks | _____ |
| <input type="checkbox"/> Fire Dept. | <input type="checkbox"/> P & Z Commission | _____ |

RECOMMENDATION FROM APPLICABLE DEPARTMENT HEAD:

1. Move to approve Ordinance 1165, waive three readings, read by title only, and approve summary of ordinance for publication.
2. Move to approve Ordinance 1166, waive three readings, read by title only, and approve summary of ordinance for publication.
3. Authorize city officials to sign Loan Agreement with Idaho Bond Bank Authority for parity bonds in the not-to-exceed amount of \$6,545,000.

ACTION OF THE CITY COUNCIL:

Date : _____

City Clerk _____

City of Hailey
 2014 Wastewater Financing
 Bond Cost Summary

	Original Projection (3/20/2014)	Bond Bank Update 10/29/014	Bond Bank FINAL 11/6/2014
Total Debt Service	10,198,350	9,569,400	
Average annual Combined Bond Payments	605,000	573,145	
True Interest Cost	4.12%	3.27%	
Use of Funds:			
Project Fund Deposit	6,027,000	6,177,119	
D.S. Reserve	398,750	367,500	
Issuance Costs & UW	120,000	142,509	
Rounding	(750)	-	
Total Use of Funds	6,545,000	6,687,128	
Combined D.S. Reserve	605,000	576,000.00	

Prepared by Piper Jaffray & Co.

City of Hailey Wastewater Debt Structure
As of 10/29/2014

Fiscal Year	Existing Debt	Series 2014 Proposed Debt (est. as of 10/29/14)	Combined Debt
2015	271,800	295,900	567,700
2016	272,500	300,300	572,800
2017	268,700	304,600	573,300
2018	269,700	303,400	573,100
2019	270,000	302,200	572,200
2020	270,400	301,000	571,400
2021	270,400	304,400	574,800
2022		572,600	572,600
2023		575,000	575,000
2024		571,800	571,800
2025		573,200	573,200
2026		574,000	574,000
2027		575,500	575,500
2028		576,000	576,000
2029		575,500	575,500
2030		574,000	574,000
2031		571,500	571,500
2032		573,000	573,000
2033		573,250	573,250
2034		572,250	572,250
Totals	1,893,500	9,569,400	11,462,900
			573,145 Average

Prepared by Piper Jaffray & Co.

**CITY OF HAILEY
BLAINE COUNTY, IDAHO**

Summary of Sewer Bond Ordinance No. 1165, passed November 3, 2014

AN ORDINANCE OF THE CITY OF HAILEY, BLAINE COUNTY, IDAHO, AUTHORIZING THE ISSUANCE AND SALE OF SEWER REVENUE BONDS TO PROVIDE FUNDS NECESSARY TO FINANCE OR REFINANCE IMPROVEMENTS TO THE CITY'S SEWER SYSTEM; FIXING THE FORM, COVENANTS AND CERTAIN TERMS OF THE BONDS TO BE ISSUED; PROVIDING FOR THE REGISTRATION AND AUTHENTICATION OF BONDS; PLEDGING REVENUES FOR PAYMENT OF DEBT SERVICE ON BONDS ISSUED HEREUNDER; PROVIDING FOR CERTAIN FEDERAL TAX COVENANTS WITH RESPECT TO THE BONDS; AND PROVIDING FOR OTHER MATTERS PROPERLY RELATING THERETO.

Section 1 (Definitions) defines certain capitalized terms used in the Ordinance.

Section 2 (Authorization of Bonds; Delegation Authority) authorizes issuance and sale by the City of revenue bonds pursuant to Supplemental Ordinances. Additionally, pursuant to Idaho Code Section 57-235, authorizes delegation to the Mayor and/or City Administrator of acceptance of the final terms and provisions of sale of Bonds,

Section 3 (Registration, Exchange and Payments) adopts a system of registration and exchange for the Bonds and describes the arrangements for paying principal of and interest on Bonds.

Section 4 (Redemption and Purchase) provides that details regarding redemption of Bonds prior to their scheduled maturity shall be provided in the respective Supplemental Ordinance or as accepted by the Mayor and/or City Administrator by authority delegated pursuant to Idaho Code Section 57-235 , and provides details regarding purchase of Bonds.

Section 5 (Establishment of Accounts and Funds) ratifies or creates the following funds: the Bond Fund, consisting of the Debt Service Account and Reserve Account, the Revenue Fund, the Project Fund and the Rebate Fund.

Section 6 (Revenue Fund; Priority of Application of Revenue of the System) provides for the allocation of sewer revenues to pay expenses and debt service on Bonds.

Section 7 (Bond Fund) provides for the deposit of revenues into a debt service fund and the maintenance of reserves.

Section 8 (Project Fund) provides for deposit of proceeds of Bonds issued to finance the Cost of Acquisition of a Project, including costs of issuance thereof.

Section 9 (Rebate Fund; Rebate Requirement) provides for deposit of excess earnings on funds under the Ordinance as required by the City's Tax Certificate, which funds are to be held in trust for payment of arbitrage rebate in accordance with Section 148 of the Code.

Section 10 (Authorization for Projects) provides that Project(s) may be financed by issuance of Bonds under Supplemental Ordinances upon determination by the City that it is necessary to preserve the public health, safety and welfare that certain components of the City's System be repaired, replaced and/or improved.

Section 11 (Specific Covenants) includes operating covenants for the benefit of Bondholders.

Section 12 (Tax Covenants) includes covenants to comply with federal tax requirements.

Section 13 (Issuance of Additional Bonds) provides the terms under which the City may issue Additional Bonds.

Section 14 (Form of Bonds) describes the form of the Bonds.

Section 15 (Execution of Bonds) authorizes procedures for execution and authentication of the Bonds.

Section 16 (Defeasance) provides conditions under which Bonds may be defeased.

Section 17 (Lost or Destroyed Bonds) makes provision in case Bonds are lost, stolen or destroyed.

Section 18 (Events of Default) describes the events declared to be "events of default" under the Ordinance.

Section 19 (Application of Funds and Moneys in Event of Default) provides for remedies in the event that a default occurs.

Section 20 (Amendments) provides the terms and conditions pursuant to which the Ordinance may be amended or revised.

Section 21 (Severability) provides that other covenants and agreements in the Ordinance are not affected if one is made invalid.

Section 22 (Applicability/Controlling Provisions) provides that if any Bonds are issued to the Idaho Bond Bank Authority in accordance with a loan agreement between the City and the Bond Bank, then such Bonds and all provisions of the Ordinance and related Supplemental Ordinance shall be subject to the provisions of such Loan Agreement; and in the event of any conflict with the provisions of such loan agreement, the terms of such loan agreement shall prevail.

Section 23 (Effective Date) provides that the Ordinance shall take effect from and after its passage and publication of this summary as required by law.

Exhibit A: Sets forth this summary for publication.

CERTIFICATION OF COUNSEL

I, the undersigned, as Bond Counsel to the City of Hailey, Idaho, hereby certify that I have read the attached Summary of Ordinance No. 1165 of the City, and that the same is true and complete and provides adequate notice to the public of the contents of said ordinance.

Dated as of this 3rd day of November, 2014.

S.C. Danielle Quade
Hawley Troxell Ennis & Hawley, LLP, Bond Counsel

Publish: Idaho Mountain Express November 5, 2014

**CITY OF HAILEY
BLAINE COUNTY, IDAHO**

SEWER BOND ORDINANCE NO. 1165

AN ORDINANCE OF THE CITY OF HAILEY, BLAINE COUNTY, IDAHO, AUTHORIZING THE ISSUANCE AND SALE OF SEWER REVENUE BONDS TO PROVIDE FUNDS NECESSARY TO FINANCE OR REFINANCE IMPROVEMENTS TO THE CITY'S SEWER SYSTEM; FIXING THE FORM, COVENANTS AND CERTAIN TERMS OF THE BONDS TO BE ISSUED; PROVIDING FOR THE REGISTRATION AND AUTHENTICATION OF BONDS; PLEDGING REVENUES FOR PAYMENT OF DEBT SERVICE ON BONDS ISSUED HEREUNDER; PROVIDING FOR CERTAIN FEDERAL TAX COVENANTS WITH RESPECT TO THE BONDS; AND PROVIDING FOR OTHER MATTERS PROPERLY RELATING THERETO.

Approved: November 3, 2014

TABLE OF CONTENTS

Section 1.	Definitions.....	2
Section 2.	Authorization of Bonds.....	9
Section 3.	Registration, Exchange and Payments.....	9
Section 4.	Redemption and Purchase	12
Section 5.	Establishment of Accounts and Funds.....	14
Section 6.	Revenue Fund; Priority of Application of Revenue	14
Section 7.	Bond Fund	15
Section 8.	Project Fund.....	17
Section 9.	Rebate Fund; Rebate Requirement.....	18
Section 10.	Authorization for Projects	18
Section 11.	Specific Covenants	18
Section 12.	Tax Covenants.....	20
Section 13.	Issuance of Additional Bonds.....	21
Section 14.	Form of Bonds	23
Section 15.	Execution of Bonds	28
Section 16.	Defeasance	28
Section 17.	Lost or Destroyed Bonds	28
Section 18.	Events of Default.....	28
Section 19.	Application of Funds and Moneys in Event of Default	29
Section 20.	Amendments	31
Section 21.	Severability	32
Section 22.	Applicability/Controlling Provisions.....	32
Section 23.	Effective Date	33

SEWER BOND ORDINANCE NO. 1165

AN ORDINANCE OF THE CITY OF HAILEY, BLAINE COUNTY, IDAHO, AUTHORIZING THE ISSUANCE AND SALE OF SEWER REVENUE BONDS TO PROVIDE FUNDS NECESSARY TO FINANCE OR REFINANCE IMPROVEMENTS TO THE CITY'S SEWER SYSTEM; FIXING THE FORM, COVENANTS AND CERTAIN TERMS OF THE BONDS TO BE ISSUED; PROVIDING FOR THE REGISTRATION AND AUTHENTICATION OF BONDS; PLEDGING REVENUES FOR PAYMENT OF DEBT SERVICE ON BONDS ISSUED HEREUNDER; PROVIDING FOR CERTAIN FEDERAL TAX COVENANTS WITH RESPECT TO THE BONDS; AND PROVIDING FOR OTHER MATTERS PROPERLY RELATING THERETO.

BE IT ORDAINED BY THE MAYOR AND CITY COUNCIL OF THE CITY OF HAILEY, BLAINE COUNTY, IDAHO, AS FOLLOWS:

WHEREAS, the City of Hailey, Blaine County, Idaho (the "City") is a body politic and corporate duly organized, operating and existing under and pursuant to the provisions of the Constitution and the laws of the State of Idaho;

WHEREAS, the City Council (the "Council") of the City is authorized and empowered by the Revenue Bond Act, Idaho Code Sections 50-1027 through 50-1042, inclusive, and the Municipal Bond Law of the State of Idaho, being Idaho Code, Title 57, Chapter 2 (collectively, the "Act"), to authorize, issue, sell and deliver revenue bonds to finance the acquisition and construction of improvements and additions to the wastewater or sewer system of the City (the "System");

WHEREAS, pursuant to the Revenue Bond Act, the City held a special municipal revenue bond election on May 20, 2014 (the "Bond Election"), at which a majority of the electors approved the City's proposition to issue up to \$6,545,000 for the purpose of financing the design and construction of certain improvements to the wastewater treatment facilities in the City's System and to pay the costs of issuance thereof;

WHEREAS, it is hereby found to be in the best interests of the City that the City adopt this Sewer Bond Ordinance (hereinafter, this "Master Ordinance") to provide the terms and provisions by which the City shall authorize the issuance and sale of revenue bonds pursuant to supplemental ordinances hereunder including i) revenue bonds up to \$6,545,000, the aggregate bonding authority pursuant to the Bond Election, pursuant to which the 2014 Bond (hereinafter defined) shall be issued, and ii) revenue bonds of the City to finance or refinance other improvements to the System pursuant to the Act;

WHEREAS, on December 20, 2012, the City issued its Sewer Revenue Refunding Bond, Series 2012 (the "2012 Bond"), to the Idaho Bond Bank Authority (the "Bond Bank") to refinance certain improvements to the System, which bond is secured by the City's pledge of Net

Revenues of the System (hereinafter defined), and all Bonds authorized to be issued hereunder are secured by Net Revenues of the System on parity with the 2012 Bond, as long as the 2012 Bond is outstanding.

NOW, THEREFORE, THE MAYOR AND COUNCIL OF THE CITY OF HAILEY, BLAINE COUNTY, IDAHO, FURTHER ORDAIN as follows:

Section 1. Definitions. As used in this Master Ordinance, the following definitions shall apply unless a different meaning clearly appears from the context:

Acquisition or **Acquire** includes the opening, laying out, establishment, purchase, construction, securing, installation, reconstruction, lease, gift, or grant from the federal government, the State of Idaho, or any public body therein or any person, the condemnation, transfer, option to purchase, other contract, or other acquirement, or any combination thereof.

Additional Bonds mean any obligations issued hereunder pursuant to Supplemental Ordinance(s), from time to time, having a lien upon the Net Revenues for the payment of the principal thereof and interest thereon, equal to the lien of the 2014 Bond and 2012 Bond.

Annual Debt Service means the amount required in a Fiscal Year for the payment of the principal of and interest on Parity Bonds, except interest capitalized from the proceeds of Parity Bonds.

Average Annual Debt Service means the average amount of Annual Debt Service which will become due on any Parity Bonds for the period from the date of such calculation until the final maturity date of the Parity Bonds then Outstanding.

Beneficial Owner means any person that has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

Bond Fund means the "City of Hailey Sewer Revenue Bond Fund," which includes a Debt Service Account, and subaccounts thereunder, for the purpose of paying the principal of and interest due on Parity Bonds, as applicable.

Bond Purchase Contract means a contract between the City and an Underwriter in the form presented to the City on the date of sale of Bonds authorized hereunder, or such other agreement as provided in each respective Supplemental Ordinance.

Bond Register means the registration records maintained by the Bond Registrar setting forth the names and addresses of Registered Owners of the Bonds, in compliance with Section 149 of the Code.

Bond Registrar means the person or qualified entity appointed by the City pursuant to Section 3 hereof for the purposes of registering and authenticating the Bonds, maintaining the Bond Register, effecting transfer of ownership of the Bonds, and paying interest on and principal of the Bonds.

Bonds means the 2014 Bond authorized by the 2014 Supplemental Ordinance and any Additional Bonds authorized to be issued pursuant to a Supplemental Ordinance.

Bond Year means each one-year period that ends on the date selected by the City. The first and last Bond Years may be shorter periods. If no day is selected by the City before the earlier of the final maturity date of the Bonds or the date that is five years after the date of issuance of the Bonds, Bond Years shall end on each anniversary of the date of issue and on the final maturity date of the Bonds.

City means the City of Hailey, Blaine County, Idaho, a body politic and corporate duly organized and existing under and by virtue of the Constitution and laws of the State of Idaho.

City Administrator means the chief administrative officer of the City.

City Clerk or **Clerk** means the de facto or de jure City Clerk of the City, or other officer of the City who is the custodian of the records of the proceedings of the City, or his/her successor in function, if any.

Code means the Internal Revenue Code of 1986, as amended, together with corresponding and applicable regulations and revenue rulings issued with respect thereto by the Treasury Department or the Internal Revenue Service of the United States.

Cost of Acquisition or any phrase of similar import, shall mean all or any part designated by the City of the costs of a Project, or interest therein, which costs, at the option of the City, may include all or any part of the incidental costs pertaining to the acquisition of the Project, including, without limitations:

- (1) Preliminary expenses advanced by the City from funds available for the use therefor, or advanced by the federal government, or from any other source, with approval of the City, or any combination thereof;
- (2) The costs of making surveys, audits, preliminary plans, other plans, specifications, estimates of costs and other preliminaries;
- (3) The costs of appraising, printing, estimates, advice, services of engineers, architects, financial consultants, attorneys at law, clerical help, or other agents of employees;
- (4) The costs of contingencies;
- (5) The costs of any discount on Bonds and of any of the costs of issuance of Bonds;
- (6) The costs of funding and short-term financing, revenue warrants, bond anticipation notes, or other temporary loans appertaining to the Project, and of the incidental expenses incurred in connection with such loans;
- (7) The acquisition costs of any properties, rights, easements, or other interest in properties, or any licenses, privileges, agreements and franchises; and

(8) All other expenses necessary or desirable and appertaining to the Project, as estimated or otherwise ascertained by the City.

Council means the City Council of the City, as the same shall be duly and regularly constituted from time to time.

Debt Service Account means an account or subaccounts of that name in the Bond Fund out of which the principal of and interest on any Parity Bonds shall be paid.

Designated Representative means the Mayor, the City Administrator or any City employee designated by them.

DTC means The Depository Trust Company of New York, as depository for the Bonds, or any successor or substitute depository for the Bonds.

Engineer means an independent licensed professional engineer (or firm of licensed professional engineers) selected by the City and experienced and skilled in the design, construction and operation of wastewater or sewer systems of comparable size and character to the System.

Fiscal Year means the year commencing October 1 and ending the following September 30.

Fitch means Fitch, Inc., organized and existing under the laws of the State of Delaware, its successors and their assigns, and, if such organization shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, Fitch shall be deemed to refer to any other nationally recognized securities rating agency (other than S&P or Moody's) designated by the City.

Information Reporting Agreement shall mean, with respect to each issue of Bonds authorized hereunder, the form of continuing disclosure undertaking by the Issuer dated the date of issuance and delivery of the respective Bonds, as originally executed and as may be amended from time to time in accordance with the terms hereof, if required by Rule 15c2-12.

Letter of Representations means the Blanket Issuer Letter of Representations from the City to DTC authorized under Section 3 of this Ordinance to be executed and filed with DTC.

Master Ordinance means this Sewer Bond Ordinance No. 1165 adopted by the Council on November 3, 2014.

Maximum Annual Debt Service means, at the time of calculation, the maximum amount of Annual Debt Service that will be payable in the current Fiscal Year or any future Fiscal Year on all Parity Bonds.

Mayor means the Mayor of the City, or any presiding officer or titular head of the City, or his/her successor in functions, if any.

Moody's means Moody's Investors Service, its successors and their assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, Moody's shall be deemed to refer to any other nationally recognized securities rating agency (other than S&P and Fitch) designated by the City.

Net Proceeds, when used with reference to the Bonds, means the face amount of the Bonds, plus accrued interest and original issue premium, if any, and less original issue discount and proceeds deposited into a Reserve Account, if any.

Net Revenues means, for any period, the Revenue of the System after the deduction of Operation and Maintenance Expenses.

Operation and Maintenance Expenses means all reasonable expenses incurred by the City, paid or accrued, of operating, maintaining, and repairing the System or of levying, collecting and otherwise administering the Revenue of the System for the payment of Parity Bonds, but shall not include any payment for debt service or deposits into a Reserve Account, depreciation or taxes levied or imposed by the City of payments to the City in lieu of taxes, or capital additions or capital replacements to the System, and the term includes (except as limited by contract or otherwise limited by law) without limiting the generality of the foregoing:

(1) Engineering, auditing, reporting, legal and other overhead expenses of the various City departments directly relating and reasonably allocable to the administration of the System;

(2) Fidelity bond and property and liability insurance premiums appertaining to the System, or a reasonably allocable share of a premium of any blanket bond or policy pertaining thereto;

(3) Payments to pension, retirement, health, and hospitalization funds and other insurance related to the operation of the System;

(4) Any taxes, assessments, excise taxes or other charges which may be lawfully imposed on the City, the System, revenues therefrom, or any privilege in connection with their operation;

(5) Contractual services, professional services, salaries, other administrative expenses, the cost of materials, supplies, repairs and labor, appertaining to the System; and

(6) All other administrative, general and commercial expenses.

Ordinance means this Master Ordinance and, when applicable, this Master Ordinance and any Supplemental Ordinance.

Outstanding, when used with reference to a Bond or Bonds, as of any particular date, means all Bonds which have been issued, executed, authenticated and delivered by the City, except (i) Bonds cancelled because of payment or redemption prior to their stated dates of maturity, and (ii) any Bond (or portion thereof) for the payment or redemption of which there has been separately set aside and held funds for the payment thereof.

Parity Bonds mean the 2012 Bond, the 2014 Bond, and any Additional Bonds issued on parity therewith.

Parity Requirement means Net Revenues equal to or greater than:

- (a) 125% of Maximum Annual Debt Service for all Parity Bonds; and
- (b) 100% of Maximum Annual Debt Service for all subordinate lien evidences of indebtedness secured by Revenue of the System.

Permitted Investments means such investments as shall be legal investment for funds under Section 50-1013, Idaho Code, as then in effect.

Pledged Revenues means the Revenue of the System to be deposited into the Revenue Fund and the Bond Fund, as provided in this Master Ordinance.

Private Person means any natural person engaged in a trade or business or any trust, estate, partnership, association, company or corporation.

Project means the undertaking or undertakings of acquiring and constructing improvements to the System.

Project Fund means any fund created pursuant to Section 8 hereunder or under any Supplemental Ordinance and any subaccount thereunder into which shall be deposited Net Proceeds of Bonds to finance a Project and costs of issuance thereof.

Purchaser or Underwriter means the original purchaser of Bonds authorized to be issued pursuant to a Supplemental Ordinance.

Qualified Insurance means any municipal bond insurance policy or surety bond issued by any insurance company licensed to conduct an insurance business in any state of the United States (or by a service corporation acting on behalf of one or more such insurance companies) which insurance company or companies, as of the time of issuance of such policy or surety bond, are currently rated in one of the two highest Rating Categories by the Rating Agency.

Qualified Letter of Credit means any letter of credit issued by a financial institution for the account of the City, which institution maintains an office, agency or branch in the United States and as of the time of issuance of such letter of credit is currently rated in one of the two highest Rating Categories by the Rating Agency.

Rate Covenant means Net Revenues in each Fiscal Year at least equal to 125% of the amounts required in such Fiscal Year to be paid as scheduled debt service (principal and interest) on all Parity Bonds.

Rating Agency means Moody's, S&P or Fitch.

Rating Category means the generic rating categories of the Rating Agency, without regard to any refinement or gradation of such rating category by a numerical modifier or otherwise.

Rebate Fund means the fund so designated by the Council into which all excess earnings on funds and accounts held by the City hereunder to the extent required by any Tax Certificate of the City shall be deposited.

Record Date, unless otherwise provided in a Supplemental Ordinance, mean (a) in the case of each interest payment date, the close of business on the fifteenth day preceding the interest payment date; and, if not a business day of the Bond Registrar, the next preceding day that is a Business Day of the Bond Registrar, and (b) in the case of redemption, if applicable, such record date as shall be specified by the Bond Registrar in the notice of redemption, provided that such record date shall be not less than fifteen (15) calendar days before the mailing of such notice of redemption.

Registered Owner or **Registered Owners** mean the person or persons whose names and addresses shall appear on the Bond Register maintained by the Bond Registrar in accordance with the terms of this Master Ordinance, as the owner or owners of a specific Bond or Bonds. For so long as the Bonds are held in book-entry form, DTC shall be deemed to be the sole Registered Owner.

Reserve Account means the Debt Service Reserve Account in the Bond Fund, including any and all subaccounts thereunder created upon issuance of Bonds under and as required by Supplemental Ordinances.

Reserve Account Requirement means the required amount to be deposited by the City into a Reserve Account upon issuance of Bonds pursuant to the respective Supplemental Ordinance.

Revenue Fund means the fund designated the "City of Hailey Sewer Revenue Fund," previously created by the City and ratified in this Ordinance, into which all of the Revenue of the System is pledged to be deposited.

Revenue of the System or **Revenue** means all earnings, revenue and moneys received by the City from or on account of the operation of the System, except grants, hookup fees and other non-recurring revenue, but including income from investments of money in the Bond Fund or from any other investment thereof, except the income from investments irrevocably pledged to the payment of any other revenue obligations of the City pursuant to a plan of retirement or refunding. The term Revenue of the System shall include any federal or state reimbursements of Operation and Maintenance Expenses to the extent such expenses are included as Operation and Maintenance Expenses.

Rule 15c2-12 means Rule 15c2-12, as amended, promulgated by the SEC under the Securities and Exchange Act of 1934, as the same may be amended from time to time.

S&P means Standard & Poor's, a Division of The McGraw Hill Companies, its successors and their assigns, and, if such corporation shall be dissolved or liquidated or shall no

longer perform the functions of a securities rating agency, S&P shall be deemed to refer to any other nationally recognized securities rating agency (other than Moody's and Fitch) designated by the City.

SEC means the Securities and Exchange Commission.

Supplemental Ordinance means any ordinance adopted by the City supplementing this Master Ordinance to authorize the issuance of Bonds under this Ordinance.

System means the wastewater or sewer system of the City, including the assets, real and personal, tangible and intangible, and as it may later be added to, extended and improved, and shall include buildings, structures, utilities or other income producing property from the operation of or in connection with which revenues for the payment of Parity Bonds will be derived, and the lands appertaining thereto, including, without limitation, any Project(s) to be acquired with the proceeds of Bonds issued hereunder.

Tax Certificate means any agreement or certificate of the City which the City may execute in order to establish and assure the tax-exempt status of interest received on Bonds.

2014 Bond means the City's Sewer Revenue Bond, Series 2014, authorized to be issued and sold pursuant to the Bond Election and the terms of the 2014 Supplemental Ordinance.

2014 Supplemental Ordinance means the Supplemental Ordinance adopted subsequent to the adoption of this Master Ordinance authorizing the issuance and sale of the 2014 Bond.

2012 Bond means the City's Sewer Revenue Refunding Bond, Series 2012, issued by the City on December 20, 2012, pursuant to Title 67, chapter 87, Idaho, as amended or supplemented, and as authorized pursuant to Ordinance No. 1114 adopted by the Council on November 19, 2012, which bond was issued and sold to the Bond Bank to refinance certain improvements to the System, the payment of which is secured by the City's pledge of Net Revenues of the System.

Treasurer means the duly appointed Treasurer of the City, or his/her successor in function, if any.

Underwriter or Purchaser means the original purchaser of Bonds authorized to be issued pursuant to a Supplemental Ordinance.

Rules of Interpretation. In this Master Ordinance, unless the context otherwise requires:

(a) The terms "hereby," "hereof," "hereto," "herein," "hereunder" and any similar terms, as used in this Master Ordinance, refer to this Master Ordinance as a whole and not to any particular article, section, or subdivision;

(b) Words of the masculine gender shall mean and include correlative words of the feminine and neuter genders and words importing the singular number shall mean and include the plural number and vice versa;

(c) Words importing persons shall include firms, associations, partnerships (including limited partnerships), trusts, corporations and other legal entities, including public bodies, as well as natural persons;

(d) Any headings preceding the text of any sections of this Master Ordinance, and any table of contents or marginal notes appended to copies hereof, shall be solely for convenience of reference and shall not constitute a part of this Master Ordinance, nor shall they affect its meaning, construction or effect; and

(e) All references herein to "articles," "sections" and other subdivisions or clauses are to the corresponding articles, sections, subdivisions or clauses hereof.

Section 2. Authorization of Bonds; Delegation Authority. In accordance with and subject to the terms, condition and limitations of the Revenue Bond Act or other statutes authorizing Bonds to be issued hereunder, the City is authorized to issue Bonds pursuant to the terms and provisions hereof as supplemented by the terms and provisions of Supplemental Ordinance(s) to provide for the specific terms and provisions thereof, including, but not limited to, the designation of each series of Bonds, which designation may include the words "sewer" or "wastewater," the dated date of original issuance and delivery thereof, the registration provisions thereof, the denominations, maturity, payment and redemption provisions thereof, and requirements, if any, for a Reserve Account to pay debt service on the Bonds. In addition, pursuant to Idaho Code Section 57-235, in the Supplemental Ordinance authorizing the issuance of Bonds, the City may delegate authority to the Mayor or City Administrator to approve the final terms and provisions of the Bonds upon the sale thereof, without any requirement that the members of the Council meet to approve such determinations.

Bonds shall be special obligations only of the Bond Fund and shall be payable and secured as provided herein. The Bonds do not constitute an indebtedness or general obligation of the City within the meaning of the constitutional provisions and limitations of the State of Idaho.

Section 3. Registration, Exchange and Payments.

(a) *Registrar and Register.* Upon issuance of Bonds hereunder, if required, the City will appoint a registrar, authenticating agent, paying agent and transfer agent (collectively, the "Bond Registrar"). The Bond Registrar shall keep, or cause to be kept, at its principal corporate trust office, sufficient records for the registration and transfer of Bonds (the "Bond Register"), which shall be open to inspection by the City. The Bond Registrar is authorized, on behalf of the City, to authenticate and deliver Bonds transferred or exchanged in accordance with the provisions of such Bonds and this Ordinance and to carry out all of the Bond Registrar's powers and duties under this Ordinance. The Bond Registrar shall be responsible for its representations contained in the Certificate of Authentication on the Bonds. The City Treasurer or City Administrator is hereby authorized to negotiate the terms of a registrar agreement with the Bond Registrar, providing for compensation and other terms mutually acceptable to the City and the Bond Registrar regarding the performance of its duties under this Ordinance. The term "Bond Registrar" shall include any business successor or successors thereto, any company into which the Bond Registrar may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party,

provided such company shall be a bank or trust company organized under the laws of any state of the United States of America or a national banking association and shall be authorized by law to perform all the duties imposed upon it by this Ordinance, shall be the successor to the Bond Registrar without the execution or filing of any paper or the performance of any further act.

(b) *Registered Ownership.* The City and the Bond Registrar may deem and treat the Registered Owner of each Bond on the Record Date as the absolute owner for all purposes, and neither the City nor the Bond Registrar shall be affected by any notice to the contrary. Payment of any such Bond shall be made only as described herein, but such registration may be transferred as herein provided. All such payments made as described herein, shall be valid and shall satisfy the liability of the City upon such Bond to the extent of the amount or amounts so paid.

(c) *DTC Acceptance/Letter of Representations.* If required by the respective Supplemental Ordinance, Bonds will initially be held in fully immobilized form by DTC acting as depository. Prior to issuance of Bonds hereunder, the Letter of Representations in the form required by DTC, with such changes, omissions, insertions and revisions as the City Administrator shall approve, is hereby authorized, and the City Administrator shall execute such Letter of Representations and cause the same to be filed with DTC. In the written acceptance of the Bond Registrar, the Bond Registrar shall agree to take all action necessary for all representations of the City in the Letter of Representations with respect to the Bond Registrar to be complied with at all times. The City's Letter of Representations is for the purpose of effectuating the book-entry-only system and shall not be deemed to amend, supersede or supplement the terms of this Ordinance, which terms are intended to be complete without reference to the Letter of Representations.

In the event of any conflict between the terms of the Letter of Representations and the terms of this Ordinance, the terms of this Ordinance shall control. DTC may exercise the rights of a Registered Owner hereunder only in accordance with the terms hereof applicable to the exercise of such rights.

(d) Neither the City nor the Bond Registrar will have any responsibility or obligation to DTC participants or the persons for whom they act as nominees with respect to the Bonds for the accuracy of any records maintained by DTC or any DTC participant, the payment by DTC or any DTC participant of any amount in respect of the principal of or interest on Bonds, any notice that is permitted or required to be given to Registered Owners under this Ordinance (except such notices as shall be required to be given by the City to the Bond Registrar or to DTC), the selection by DTC or any DTC participant of any person to receive payment in the event of a partial redemption of the Bonds, or any consent given or other action taken by DTC as the Registered Owner. For so long as any Bonds are held in fully immobilized form hereunder, DTC or its successor depository shall be deemed to be the Registered Owner for all purposes, and all references in this Ordinance to the Registered Owners shall mean DTC or its nominee and shall not mean the owners of any beneficial interest in any Bonds.

(e) *Use of Depository.*

(1) Under the book-entry-only system, Bonds shall be registered initially in the name of "CEDE & Co.," as nominee of DTC, with one Bond maturing on each of the maturity dates for each series of the Bonds in a denomination corresponding to the total principal therein designated to mature on such date. Registered ownership of such immobilized Bonds, or any portions thereof, may not thereafter be transferred except (a) to any successor of DTC or its nominee, provided that any such successor shall be qualified under any applicable laws to provide the service proposed to be provided by it; (b) to any substitute depository appointed by the Designated Representative pursuant to subsection (2) below or such substitute depository's successor; or (c) to any person as provided in subsection (4) below.

(2) Upon the resignation of DTC or its successor (or any substitute depository or its successor) from its functions as depository or a determination by the Designated Representative to discontinue the system of book entry transfers through DTC or its successor (or any substitute depository or its successor), the Designated Representative may hereafter appoint a substitute depository. Any such substitute depository shall be qualified under any applicable laws to provide the services proposed to be provided by it.

(3) In the case of any transfer pursuant to clause (a) or (b) of subsection (1) above, the Bond Registrar shall, upon receipt of all Outstanding Parity Bonds issued hereunder, together with a written request on behalf of the Designated Representative, issue a single new Bond for each maturity then outstanding, registered in the name of such successor or such substitute depository, or their nominees, as the case may be, all as specified in such written request of the Designated Representative.

(4) In the event that (a) DTC or its successor (or substitute depository or its successor) resigns from its functions as depository, and no substitute depository can be obtained, or (b) the Designated Representative determines that it is in the best interest of the Beneficial Owners of the Bonds that such owners be able to obtain such Bonds in the form of Bond certificates, the ownership of such Bonds may then be transferred to any person or entity as herein provided, and shall no longer be held in fully immobilized form. The Designated Representative shall deliver a written request to the Bond Registrar, together with a supply of definitive Bonds, to issue Bonds as herein provided in any authorized denomination. Upon receipt by the Bond Registrar of all then Outstanding Parity Bonds issued hereunder, together with a written request on behalf of the Designated Representative to the Bond Registrar, new Bonds shall be issued in the appropriate denominations and registered in the names of such persons as are requested in such written request.

(f) *Registration of Transfer of Ownership or Exchange; Change in Denominations.* The transfer of any Bond may be registered and Bonds may be exchanged, but no transfer of any such Bond shall be valid unless such Bond is surrendered to the Bond Registrar with the assignment form appearing on such Bond duly executed by the Registered Owner or such Registered Owner's duly authorized agent in a manner satisfactory to the Bond Registrar. Upon such surrender, the Bond Registrar shall cancel the surrendered Bond and shall authenticate and deliver, without charge to the Registered Owner or transferee therefor, a new Bond (or Bonds at the option of the new Registered Owner) of the same date, maturity, and interest rate and for the same aggregate principal amount in any authorized denomination, naming as Registered Owner the person or persons listed as the assignee on the assignment form appearing on the surrendered

Bond, in exchange for such surrendered and cancelled Bond. Any Bond may be surrendered to the Bond Registrar and exchanged, without charge, for an equal aggregate principal amount of the Bonds of the same date, maturity, and interest rate, in any authorized denomination. The Bond Registrar shall not be obligated to register the transfer or to exchange any Bond during the 15 days preceding the date any such Bond is to be redeemed.

(g) *Registrar's Ownership of Bonds.* The Bond Registrar may become the Registered Owner of any Bond with the same rights it would have if it were not the Bond Registrar, and to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as member of, or in any other capacity with respect to, any committee formed to protect the rights of the Registered Owners of the Bonds.

(h) *Place and Medium of Payment.* The principal of and interest on the Bonds shall be payable in lawful money of the United States of America. Interest on the Bonds shall be calculated on the basis of a 360-day year and twelve 30-day months. For so long as all Bonds are in fully immobilized form, such payments of principal and interest thereon shall be made as provided in the operational arrangements of DTC as referred to in the Letter of Representations.

In the event that the Bonds are no longer in fully immobilized form, or are initially issued outside of the DTC book-entry only system, interest on the Bonds shall be paid by check or draft mailed to the Registered Owners of the Bonds at the addresses for such Registered Owners appearing on the Bond Register on the Record Date. Principal of the Bonds shall be payable upon presentation and surrender of such Bonds by the Registered Owners at the principal office of the Bond Registrar.

Section 4. Redemption and Purchase.

(a) *Redemption.* Bonds will be subject to optional and/or mandatory redemption prior to maturity pursuant to the terms and provisions of the Supplemental Ordinance(s) authorizing the Bonds, or upon the terms and provisions of purchase or loan agreements accepted by the Mayor and/or City Administrator as authorized under the Supplemental Ordinance(s) pursuant to Section 2 of this Ordinance.

(b) *Purchase of Bonds.* The City reserves the right to use at any time any Revenue of the System available after providing for payments required by Section 6(b) of this Ordinance, or other available funds, to purchase any of the Bonds offered to the City at any price deemed reasonable by the Designated Representative.

(c) *Selection of Bonds for Redemption.* As long as Bonds are held in book-entry only form, the selection of Bonds to be redeemed shall be made in accordance with the operational arrangements in effect at DTC. If the Bonds are not held in uncertificated form, the selection of such Bonds to be redeemed shall be made as provided in this subsection (c). If the City redeems at any one time fewer than all of the Bonds having the same maturity date, the particular Bonds or portions of Bonds of such maturity to be redeemed shall be selected by lot (or in such other manner determined by the Bond Registrar) in increments of \$5,000. In the case of a Bond of a denomination greater than \$5,000, the City and the Bond Registrar shall treat each Bond as representing such number of separate Bonds each of the denomination of \$5,000 as is obtained

by dividing the actual principal amount of such Bond by \$5,000. If Bonds are called for optional redemption, portions of the principal amount of such Bonds, in installments of \$5,000 or any integral multiple of \$5,000, may be redeemed. If less than all of the principal amount of any Bond is redeemed, upon surrender of such Bond at the principal office of the Bond Registrar, there shall be issued to the Registered Owner, without charge therefor, for the then unredeemed balance of the principal amount thereof, a new Bond or Bonds, at the option of the Registered Owner, of like maturity and interest rate in any denomination authorized by this Ordinance.

(d) Notice of Redemption.

(1) Official Notice. Unless waived by any owner of Bonds to be redeemed, official notice of any such redemption (which notice may be conditional) shall be given by the Bond Registrar on behalf of the City by mailing a copy of an official redemption notice by first class mail at least 30 days and not more than 60 days prior to the date fixed for redemption to the Registered Owner of the Bond or Bonds to be redeemed at the address shown on the Bond Register or at such other address as is furnished in writing by such Registered Owner to the Bond Registrar. All official notices of redemption shall be dated and shall state:

(A) the redemption date;

(B) the redemption price;

(C) if fewer than all Outstanding Parity Bonds issued hereunder are to be redeemed, the identification by maturity (and, in the case of partial redemption, the respective principal amounts) of the Bonds to be redeemed;

(D) that on the redemption date the redemption price will become due and payable upon each such Bond or portion thereof called for redemption, and that interest thereon shall cease to accrue from and after said date; and

(E) the place where such Bonds are to be surrendered for payment of the redemption price, which place of payment shall be the principal office of the Bond Registrar.

On or prior to any redemption date, the City shall deposit with the Bond Registrar an amount of money sufficient to pay the redemption price of all the Bonds or portions of Bonds which are to be redeemed on that date, unless the redemption notice specified a conditional redemption and the condition was not fulfilled.

(2) Effect of Notice. Official notice of redemption having been given as aforesaid, the Bonds or portions of Bonds so to be redeemed shall, on the redemption date, become due and payable at the redemption price therein specified, and from and after such date (unless the City shall default in the payment of the redemption price) such Bonds or portions of Bonds shall cease to bear interest. Upon surrender of such Bonds for redemption in accordance with said notice, such Bonds shall be paid by the Bond Registrar at the redemption price. Installments of interest due on or prior to the redemption date shall be payable as herein provided for payment of interest. Upon surrender for any partial redemption of any Bond, there shall be prepared for the Registered Owner a new Bond or Bonds of the same maturity in the amount of the unpaid principal. All Bonds which have been redeemed shall be canceled and destroyed by

the Bond Registrar and shall not be reissued. The City will not provide notices of redemption to Beneficial Owners of any Bond, and notice to DTC in accordance with this Section shall constitute sufficient notice.

(3) Additional Notice. In addition to the foregoing notice, further notice shall be given by the Bond Registrar as set out below, but no defect in said further notice nor any failure to give all or any portion of such further notice shall in any manner defeat the effectiveness of a call for redemption if notice thereof is given as above prescribed. Each further notice of redemption given hereunder shall contain the information required above for an official notice of redemption plus (A) the CUSIP numbers of all Bonds being redeemed; (B) the date of issue of the Bonds as originally issued; (C) the rate of interest borne by each Bond being redeemed; (D) the maturity date of each Bond being redeemed; and (E) any other descriptive information needed to identify accurately the Bonds being redeemed. Each further notice of redemption shall be sent at least thirty (30) days before the redemption date by registered or certified mail, overnight delivery service or electronic means to the Electronic Municipal Market Access System ("EMMA") of the Municipal Securities Rule Making Board as provided for by the Securities and Exchange Commission and located at www.emma.mrsb.org.

(4) CUSIP Numbers. Upon the payment of the redemption price of Bonds being redeemed, each check or other transfer of funds issued for such purpose shall bear the CUSIP number, if applicable, identifying, by issue and maturity, the Bonds being redeemed with the proceeds of such check or other transfer.

(5) Amendment of Notice Provisions. The foregoing notice provisions of this Section, including but not limited to the information to be included in redemption notices and the persons designated to receive notices, may be amended by additions, deletions and changes in order to maintain compliance with duly promulgated regulations and recommendations regarding notices of redemption of municipal securities.

Section 5. Establishment of Accounts and Funds. The following accounts and funds on the accounting records of the City are hereby ratified, if previously created, or created with respect to the Bonds issued hereunder:

- (a) Bond Fund, held by the City, consisting of the Debt Service Account and any and all Reserve Accounts;
- (b) Revenue Fund, held by the City;
- (c) Project Fund, held by the City; and
- (d) Rebate Fund, held by the City.

Section 6. Revenue Fund; Priority of Application of Revenue.

(a) *Revenue Fund*. The City maintains the "City of Hailey Sewer Revenue Fund" (the "Révenue Fund") as a separate enterprise fund of the City. All Revenue of the System is deposited in the Revenue Fund. Notwithstanding the foregoing, the City may maintain such

separate funds and accounts in such names and under such additional designations as shall be required to comply with standard accounting practices.

(b) *Priority of Application of Revenue of the System.* The Revenue Fund shall be held separate and apart from all other funds and accounts of the City, and the Revenue of the System deposited in such Revenue Fund shall be used only for the following purposes and in the following order of priority:

First, to pay the Operation and Maintenance Expenses of the System;

Second, to pay the interest on any Parity Bonds, including reimbursements to the issuer of a Qualified Letter of Credit or Qualified Insurance if a Qualified Letter of Credit or Qualified Insurance secures the payment of interest on Parity Bonds and the Supplemental Ordinance authorizing such Parity Bonds provides for such reimbursement;

Third, to pay the principal of any Parity Bonds, including reimbursements to the issuer of a Qualified Letter of Credit or Qualified Insurance if a Qualified Letter of Credit or Qualified Insurance secures the payment of principal of Parity Bonds and the Supplemental Ordinance authorizing such Parity Bonds provides for such reimbursement;

Fourth, to make all payments required to be made into any Reserve Account created to secure payment of debt service on any series of Bonds, including reimbursements to the issuer of a Qualified Letter of Credit or Qualified Insurance if a Qualified Letter of Credit or Qualified Insurance has been issued to fund the Reserve Account Requirement for any series of Bonds and the Supplemental Ordinance authorizing such Bonds provides for such reimbursement;

Fifth, to make all payments required to be made into any revenue bond redemption fund or revenue warrant redemption fund and debt service fund or reserve account created to pay and secure the payment of the principal of and interest on government loans and any other revenue bonds or revenue warrants of the City having a lien upon the Revenue of the System junior and inferior to the lien thereon for the payment of the principal of and interest on Parity Bonds; and

Sixth, to retire by redemption or purchase any outstanding Parity Bonds or revenue warrants of the City payable out of the Revenue of the System, to make necessary additions, betterments, improvements and repairs to or extensions and replacements of the System, or for any other lawful City purposes.

The City may transfer any money from any funds or accounts of the System legally available therefor, except bond redemption funds, refunding escrow funds or defeasance funds, to meet the required payments to be made into the Bond Fund.

Section 7. Bond Fund. There is hereby created a fund known as the "City of Hailey Sewer Revenue Bond Fund" (the "Bond Fund") solely for the purpose of paying the principal of, premium, if any, and interest on Parity Bonds. The Bond Fund shall consist of the following accounts: (1) Debt Service Account, and (2) Debt Service Reserve Account, including any and all subaccounts thereunder.

Said accounts are more particularly described as follows:

(a) Debt Service Account. As long as any Parity Bond remains Outstanding, the City hereby irrevocably obligates and binds itself to set aside and pay from the Revenue Fund into the Debt Service Account those amounts necessary, together with such other funds as are on hand and available in the Debt Service Account, to pay the interest or principal and interest next coming due on Parity Bonds. Such payments from the Revenue Fund to the Debt Service Account shall be made in a fixed amount without regard to any fixed proportion following the closing and delivery of Bonds on or before each date on which an installment of interest or principal and interest falls due on Parity Bonds and/or a Parity Bond is subject to mandatory redemption and in an amount equal to the installment of interest or principal and interest or the redemption amount.

(b) Reserve Account. The City shall maintain a Debt Service Reserve Account, including any and all subaccounts established thereunder (the "Reserve Account") for the purpose of securing the payment of the principal of and interest on Bonds and or Parity Bonds, as provided in the Supplemental Ordinance for the respective Bonds. The City will covenant and agree in the Supplemental Ordinance for Bonds, as applicable, to maintain at all times an amount in the Reserve Account, as applicable, equal to the Reserve Account Requirement, except for withdrawals authorized therefrom, for so long as such Bonds and/or Parity Bonds remain outstanding.

Alternatively, a Reserve Account Requirement for any issue of Bonds may be maintained, in whole or in part, by a Qualified Letter of Credit or Qualified Insurance, as provided in the respective Supplemental Ordinance. The amount payable from the Qualified Insurance or the Qualified Letter of Credit shall be credited against the amounts otherwise required to be accumulated and maintained in a Reserve Account. In computing the amount on hand in the Reserve Account, Qualified Insurance and/or a Qualified Letter of Credit shall be valued at the face amount thereof, and all other obligations purchased as an investment of moneys therein shall be valued at cost.

The Supplemental Ordinance for each series of Bonds will set out the terms and provisions for withdrawals from the Reserve Account, if required, in the event of insufficient amounts in the Debt Service Account to pay the principal of, premium if any, interest on, and mandatory sinking fund installments, as applicable, on any Bonds secured by such Reserve Account then Outstanding, and the provisions for any surplus in the Reserve Account, if applicable.

In the event there shall be a deficiency in the Debt Service Account to meet maturing installments of either principal, interest, or sinking fund installments on the Parity Bonds payable out of such account, such deficiency shall be made up from the Reserve Account(s), as applicable, by the withdrawal of moneys therefrom. Any deficiency created in a Reserve Account by reason of any such withdrawal shall then be made up out of Revenue of the System (after making necessary provision for the payments required to be made by subparagraphs First through Third of Section 6(b)) by approximately equal additional monthly payments so that by twelve (12) months from the date of such withdrawal there will have been paid into the applicable Reserve Account an amount which, with money already on deposit therein, will equal the Reserve Account Requirement, as applicable.

The value of money and obligations credited to any and all Reserve Accounts, as applicable, shall be determined by the City annually as of September 30. If the valuation shall be less than the amount required to be maintained therein, the deficiency (due to said valuation and not to a withdrawal) shall be made up from the Revenue Fund by paying into the applicable Reserve Account one-sixth (1/6) of the deficiency on or before the 20th day of each of the next six (6) succeeding months.

(c) *Sufficiency of Revenues.* The Council hereby states and certifies that in setting aside and providing for said payments into the various accounts within the Bond Fund of the amounts necessary for the payment of the principal, interest, and sinking fund installments on said Bonds, as applicable, the Council has taken into consideration and has due regard for Operation and Maintenance Expenses, and the Council will set aside into said accounts within the Bond Fund moneys sufficient and necessary to retire said Bonds (including principal, interest, and sinking fund installments) and any prior or subsequent bonds issued on a parity therewith, after paying all Operation and Maintenance Expenses.

(d) *Pledge of Revenue; Priority of Lien of Payments into Accounts within the Bond Fund.* The amounts so pledged to be paid into the various accounts within the Bond Fund from the Revenue of the System are hereby pledged and declared to be a prior lien and first charge thereon superior to all other charges of any kind or nature whatsoever, except the Operation and Maintenance Expenses of the System, and except that the amounts so pledged are of equal lien to the charges upon such Revenue of the System for the payment of the principal of and interest on Parity Bonds.

(e) *Application and Investment of Moneys in Accounts within the Bond Fund.* Moneys in the various accounts within the Bond Fund may be invested in Permitted Investments. Investments of funds in the accounts within the Bond Fund shall mature prior to the date on which such moneys shall be needed for required interest, principal, or sinking fund installments. Investments of funds in the Reserve Account shall be available to pay any deficiencies that may occur in any of the accounts within the Bond Fund. All interest earned and income derived by virtue of such investments shall remain in the Bond Fund and be used to meet the required deposits into any account therein. Subject to the other provisions of this subparagraph, moneys in the Debt Service Account and the Reserve Account, as applicable, may be combined for the purpose of purchasing investments, but the records of the City shall show to which account the respective portions of any such combined investment are credited.

Section 8. Project Fund. The City hereby creates a fund known as the "City of Hailey Sewer Revenue Project Fund" (the "Project Fund") into which shall be deposited all of the proceeds of the sale of Bonds to be used for the payment of the Cost of Acquisition of a Project, including costs of issuance of Bonds. Any interest earnings on moneys invested from the Project Fund shall be deposited into said Project Fund. The City's share of any liquidated damages or other moneys paid by defaulting contractors or their sureties will be deposited into said Project Fund to assure the completion of the Project.

When the construction of the Project has been completed and all costs related thereto have been paid in full, any balance remaining in the Project Fund will be deposited into the Bond Fund.

Section 9. Rebate Fund; Rebate Requirement.

There is hereby established a Rebate Fund into which shall be deposited, from time to time, all excess earnings on funds and accounts held by the City hereunder to the extent required by any Tax Certificate of the City and said amounts shall be held in trust for the payment of arbitrage rebate in accordance with Section 148 of the Code and the Tax Certificate. All earnings on the Rebate Fund shall remain within said fund and shall be used for no other purpose unless the City provides the Bond Registrar with an opinion of nationally recognized bond counsel that another use will not cause interest on the respective Bonds to cease to qualify for exclusion from federal income taxation under the Code.

The Bond Registrar may rely conclusively upon and shall be fully protected from all liability in relying upon the Issuer's determinations, calculations, certifications and written directions required by this Section and the Bond Registrar shall have no responsibility to monitor and independently make any calculations or determination or to review the Issuer's determinations, calculations, certifications and written directions required by this Section.

Section 10. Authorization for Projects. The Council hereby authorizes and directs that upon determination that it is necessary to preserve the public health, safety and welfare that certain components of the City's existing System be repaired, replaced and/or improved, that Project(s) may be financed by the issuance of Additional Bonds upon adoption of Supplemental Ordinance(s) pursuant to and upon compliance with Section 13 hereunder.

Each such Supplemental Ordinance authorizing Additional Bonds to finance a Project shall include:

- (1) the description of the Project to be acquired, constructed and installed;
- (2) that the City, its staff and agents shall undertake the Project in accordance with maps, plans and specifications prepared by the City's Engineer, which shall be on file in the City Clerk's office, and which may be revised prior to or in the course of actual construction, provided such changes are found necessary and desirable by the Council and that such changes do not substantially affect or alter the plans or costs of the Project; and
- (3) the total estimated Cost of Acquisition of the Project to be financed by the Additional Bonds.

Section 11. Specific Covenants. For the protection and security of the Parity Bonds, the City hereby covenants and agrees to and with the Registered Owners of Parity Bonds that the City will perform the following covenants:

- (a) *Rate Covenant.* The City has established, may from time to time revise, and shall maintain and shall collect from the users of the System, rates and charges for furnishing the services and the facilities of the System to such users thereof. Said rates and charges are, and shall continue to be, uniform as to all persons or properties which are of the same class. The City shall establish, maintain and collect such rates and charges for service of its System for so long as any Parity Bonds are Outstanding and shall maintain the Rate Covenant.

(b) *Acquire Projects.* The City shall commence the acquisition, construction and completion of any Project financed by proceeds of Bonds, and continue the same with all practical dispatch and in a sound and economical manner.

(c) *Operate System.* The City shall operate the System in an efficient and economical manner and prescribe, revise, and collect such charges in connection therewith so that the services, facilities, and properties of the System may be furnished at the lowest possible cost consistent with sound economy and prudent management.

(d) *Good Repair.* The City shall operate, maintain, preserve, and keep the System and every part hereof in good repair, working order, and condition.

(e) *Preserve Security.* The City shall preserve and protect the security of the Parity Bonds and the rights of the Registered Owners thereof.

(f) *Collect Revenues.* The City shall collect and hold in trust the Revenue of the System and other funds pledged to the payment of the Parity Bonds and apply such Revenue of the System or other funds only as provided in this Ordinance and all Supplemental Ordinances.

(g) *Service Bonds.* The City shall pay and cause to be paid punctually the principal of and interest on Parity Bonds on the date or dates, at the place or places, and in the manner that such sums are due in accordance with this Ordinance and all Supplemental Ordinances.

(h) *Pay Claims.* The City shall pay and discharge any and all lawful claims for labor, materials, and supplies which, if unpaid, might by law become a lien or charge upon the Revenue of the System, or any part of said Revenue of the System, or any funds in the hands of the Treasurer or City Administrator, prior or superior to the lien of Parity Bonds or which might impair the security of Parity Bonds to the end that the priority and security of Parity Bonds shall be fully preserved and protected.

(i) *Encumbrances.* The City shall not encumber, sell, lease, or dispose of the System or any part thereof, nor enter into any lease or agreement which would impair or impede the operation of the System or any part thereof necessary to secure adequate Revenue for the payment of the principal of and interest on Parity Bonds, nor which would otherwise impair or impede the rights of the Registered Owners of Parity Bonds with respect to such Revenue or the operation of the System without provisions for the retirement of Parity Bonds then Outstanding from the proceeds thereof.

(j) *Insurance.* The City shall procure and keep in force insurance upon all buildings and structures of the System and the machinery and equipment therein, which are usually insured by entities operating like property, in good and responsible insurance companies. The amount of the insurance shall be such as may be required to adequately protect the City and the Registered Owners of any Parity Bonds from loss due to any casualty, and in the event of any such loss, the proceeds shall be used to repair or restore the System or for the payment of Parity Bonds.

(k) *Fidelity Bonds.* The City shall procure suitable fidelity bonds covering all of its officers and other employees charged with the operation of the System and the collection and disbursement of Revenue of the System.

(l) *Engineers.* The City shall employ consulting engineers of acknowledged reputation, skill, and experience in the improvement and operation of the System for any unusual or extraordinary items of maintenance, repair, extensions, or betterments as shall be required from time to time. All reports, estimates, and recommendations of such consulting engineers shall be filed with the Clerk and furnished to the Registered Owners of any Parity Bonds upon request.

(m) *Accounts.* The City shall keep proper and separate accounts and records in which complete and separate entries shall be made of all transactions relating to the System, and it will furnish complete operating and income statements upon request.

(n) *Delinquencies.* The City shall not furnish sewer service to any customer whatsoever free of charge and it shall, not later than sixty (60) days after the end of each calendar year, take such legal action as may be reasonable to enforce collection of all collectible delinquent accounts.

Section 12. Tax Covenants.

(a) *General.* The City covenants with the Owners of Bonds that, notwithstanding any other provision of this Ordinance or any other instrument, it will take no action which would adversely affect the tax exempt status of Bonds issued hereunder under Sections 103 or 148 of the Code pertaining to the exclusion of interest on the Bonds from gross income for federal income tax purposes. The foregoing covenant shall extend throughout the term of the Bonds. The City will execute a Tax Certificate dated the date of issuance and closing of Bonds hereunder with respect to such federal tax matters.

(b) *Arbitrage Covenant; Covenant to Maintain Tax Exemption.*

(1) The Mayor and/or City Administrator and other appropriate officials of the City each are hereby authorized and directed to execute from time to time such Tax Certificates as shall be necessary to establish that the Bonds are not "arbitrage bonds" within the meaning of Section 148 of the Code and the regulations promulgated or proposed thereunder, as the same presently exist or may from time to time hereafter be amended, supplemented or revised, and to establish that interest on the Bonds is not and will not become includable in gross income under the Code and applicable regulations. The City covenants and certifies to and for the benefit of the Bondholders that no use will be made of the proceeds of the issue and sale of the Bonds, or any funds or accounts of the City which may be deemed to be proceeds of the Bonds, pursuant to Section 148 of the Code and applicable regulations (proposed or promulgated,) which use, if it had been reasonably expected on the date of issuance of the Bonds, would have caused the Bonds to be classified as "arbitrage bonds" within the meaning of Section 148 of the Code. Pursuant to this covenant, the City obligates itself to comply throughout the term of the Bonds with the requirements of Section 148 of the Code and the regulations proposed or promulgated thereunder.

(2) The City further covenants and agrees to and for the benefit of the Bondholders that the City (i) will not take any action that would cause interest on the Bonds to be or to become ineligible for the exclusion from gross income of the Bondholders as provided in

Section 103 of the Code, (ii) will not omit to take or cause to be taken, in timely manner, any action which would cause interest on the Bonds to be or to become ineligible for the exclusion from gross income of the Bondholders as provided in Section 103 of the Code, and (iii) without limiting the generality of the foregoing, (a) will not take any action which would cause the Bonds, or any Bond, to be a "private activity bond" within the meaning of Section 141 of the Code or to fail to meet any applicable requirement of Section 149 of the Code and (b) will not omit to take or cause to be taken, in timely manner, an action which would cause the Bonds, or any Bond, to be a "private activity bond" or to fail to meet any applicable requirement of Section 149 of the Code. The Mayor and/or the City Administrator, or such other appropriate officials of the City each are hereby authorized and directed to execute from time to time such Tax Certificate as shall be necessary to establish that the Bonds are not and will not become "private activity bonds," that all applicable requirements of Section 149 of the Code are and will be met, and that the covenant of the City contained in this Section 12(b)(2) will be complied with.

(3) The City covenants and certifies to and for the benefit of the Bondholders that: (i) the City will at all times comply with the provisions of any Tax Certificate; (ii) the City will at all times comply with the rebate requirements contained in Section 148(f) of the Code, to the extent applicable; and (iii) no bonds or other evidences of indebtedness of the City have been or will be issued, sold or delivered within a period beginning 15 days prior to the sale of a series of Bonds and ending 15 days following the date of delivery of and payment for a series of Bonds.

The City hereby covenants to adopt, make, execute and enter into (and to take such actions, if any, as may be necessary to enable it to do so) any resolution or Tax Certificate necessary to comply with any changes in law or regulations in order to preserve the exclusion of interest on the Bonds from gross income of the Bondholders thereof for purposes of the federal income tax to the extent that it may lawfully do so. The City further covenants to (a) impose such limitations on the investment or use of moneys or investment related to the Bonds, (b) make such payments to the United States Treasury, (c) maintain such records, (d) perform such calculations and (e) perform such other acts as may be necessary to preserve the exclusion of interest on the Bonds from gross income of the Bondholders thereof for purposes of the federal income tax and which it lawfully may do.

Pursuant to these covenants, the City obligates itself to comply with the requirements of Section 103 of the Code and the regulations proposed or promulgated thereunder throughout the term of the issue of the Bonds.

(c) *Modification of Tax Covenants.* The covenants of this Section are specified solely to assure the continued exemption from regular income taxation of the interest on the Bonds. To that end, the provisions of this Section may be modified or eliminated without any requirement for formal amendment thereof upon receipt of an opinion of the City's bond counsel that such modification or elimination will not adversely affect the tax exemption of interest on any Bonds.

Section 13. Issuance of Additional Bonds.

(a) *Limitations Upon Issuance of Parity Obligations.* As long as the 2012 Bond and any Bonds issued hereunder are Outstanding, the City hereby covenants and agrees that it will

not issue any Bonds except that the City hereby reserves the right to issue Additional Bonds constituting a charge and lien upon the Revenue of the System equal to the lien thereon of the 2012 Bond and any Bonds issued hereunder but not prior nor superior thereto. Except as provided in this subsection (a), the City shall not issue any series of Additional Bonds or incur any additional indebtedness with a parity lien or charge on Net Revenues (i.e., on a parity of lien with Parity Bonds at the time Outstanding) unless:

(1) Prior to authorizing the Additional Bonds to finance a Project under Idaho Code Sections 50-1027 through 50-1042, inclusive, as may be amended from time to time, the City obtains approval of the electorate of the City or a judicial confirmation pursuant to Title 7 Chapter 13 of the Idaho Code that the Additional Bonds are enforceable obligations of the City as required by the Revenue Bond Act;

(2) The City is not, and has not been, in default as to any payments required by the provisions of this Master Ordinance or any Supplemental Ordinance for a period of not less than twelve (12) months immediately preceding the issuance of such Additional Bonds;

(3) The Supplemental Ordinance authorizing the issuance of the 2014 Bond and Additional Bonds shall include the covenants provided in Section 7(b) hereof and provide that the Reserve Account Requirement, if applicable, shall be funded no later than as permitted under this Master Ordinance;

(4) While any bonds issued by the City to the Bond Bank are outstanding, the requirements and covenants with respect to the issuance of additional indebtedness included in the respective loan agreement with the Bond Bank shall be satisfied;

(5) As evidenced by a written certification filed with the City by the City Engineer, an independent engineer, or certified public accountant, the Net Revenues of the System for a period of twelve (12) consecutive months out of the twenty-four (24) months immediately preceding the issuance of such Additional Bonds shall have been sufficient to meet the Parity Requirement, commencing with the first full Fiscal Year following the date on which any portion of interest on the series of Additional Bonds then being issued no longer will be paid from the proceeds of such series of Additional Bonds.

In calculating the Net Revenues of the System, the City may take into consideration changes in Net Revenues estimated to occur under one or more of the following conditions for each year after such delivery for so long as the Parity Bonds and any Additional Bonds shall be Outstanding:

(A) Any increase or decrease in Net Revenues which would result from any change in rates or charges adopted prior to the issuance of the Additional Bonds;

(B) Any increase or decrease in Net Revenues estimated to result from any additions, betterments, and improvements to and extensions of any facilities of the System which (i) became fully operational during such twelve (12) month period; (ii) were under construction at the time of the issuance of the Additional Bonds; or (iii) will be constructed from the proceeds of the Additional Bonds proposed to be issued; and/or

(C) The additional Net Revenues which would have been received if any customers added to the System prior to the date of the Additional Bonds, but subsequent to the beginning of such twelve (12) month period, were customers for the entire period.

The written certification described in this Section 13(a)(5) shall not be required as a condition to the issuance of Additional Bonds:

(A) if the Additional Bonds being issued are for the purpose of refunding Outstanding Parity Bonds issued hereunder; or

(B) if the Additional Bonds are being issued to pay costs of completion of construction of facilities of the System for which Additional Bonds have been issued previously and the principal amount of such Additional Bonds being issued for completion purposes does not exceed an amount equal to an aggregate of 15% of the principal amount of Additional Bonds theretofore issued for such facilities and reasonably allocable to the facilities to be completed as shown in a written certificate of the City Engineer, which certificate shall also state that the nature and purpose of such facilities has not materially changed.

(b) *Subordinate Lien Obligations.* Nothing herein contained shall prevent the City from issuing revenue bonds or other obligations which are a charge upon the Revenue of the System junior or inferior to the payments required by this Ordinance to be made out of such Revenue to pay and secure the payment of any Parity Bonds.

(c) *Refunding Obligations.* Nothing herein contained shall prevent the City from issuing revenue bonds to refund maturing Parity Bonds for the payment of which moneys are not otherwise available.

Section 14. Form of Bonds. Bonds hereunder shall be in substantially the following form as may be revised, pursuant to Supplemental Ordinances, to reflect the specific terms and provisions of each series of Bonds, and as required if not registered under the book-entry-only system of DTC:

UNITED STATES OF AMERICA

No. _____ \$ _____

STATE OF IDAHO
CITY OF HAILEY, BLAINE COUNTY

SEWER REVENUE [REFUNDING] BOND, [SERIES _____]

INTEREST RATE: MATURITY DATE: DATED DATE: CUSIP NO: _____

REGISTERED OWNER: [CEDE & CO.]

PRINCIPAL AMOUNT: _____ DOLLARS

The City of Hailey, Blaine County, Idaho, a body politic and corporate organized and existing under and by virtue of the laws of the State of Idaho (herein called the "City") hereby acknowledges itself to owe and for value received promises to pay, but only from the sources and as hereinafter provided, to the Registered Owner identified above, or registered assigns, on the Maturity Date identified above, the Principal Amount indicated above and to pay interest thereon from the Dated Date hereof, or the most recent date to which interest has been paid or duly provided for, at the Interest Rate set forth above, payable on [_____], and semiannually thereafter on the ___ days of each _____ and _____ until such principal sum is paid or payment has been duly provided for.

Both principal of and interest on this bond are payable in lawful money of the United States of America to the Registered Owner of record as of the close of business on the fifteenth day preceding an interest payment date, and if not a business day of the Bond Registrar (hereinafter defined), the next preceding day that is a business day for the Bond Registrar. Interest and principal shall be paid as provided in the Blanket Issuer Letter of Representations (the "Letter of Representations") by the City to The Depository Trust Company ("DTC"). _____ is acting as the Bond Registrar, authenticating agent and paying agent for the bonds of this issue (the "Bond Registrar"). Capitalized terms used in this bond that are not specifically defined have the meanings given such terms in Sewer Bond Ordinance No. 1165 of the City, as supplemented by Supplemental Ordinance No. _____ (collectively, the "Ordinance"). Reference is made to the Ordinance and any and all modifications and amendments thereto for a description of the nature and extent of the security for the bonds of this issue, the funds or revenues pledged, and the terms and conditions upon which such bonds are issued.

This bond is one of an authorized issue of bonds of the City of like date and tenor, except as to number, amount, rate of interest and date of maturity in the aggregate principal amount of [\$______]. This issue of bonds is authorized by the Ordinance to finance certain improvements to the City's wastewater or sewer system (the "System") [for the purposes of refunding outstanding sewer revenue bonds of the City previously issued].

This bond and the bonds of this issue are payable solely from the special fund of the City defined as the "Bond Fund" under the Ordinance. The City has irrevocably obligated and bound itself to pay into the Bond Fund out of the Revenue of the System or from such other moneys as may be provided therefor certain amounts necessary to pay and secure the payment of the principal and interest on such bonds. The bonds of this issue are not general obligations of the City.

The bonds of this issue are issued under and in accordance with the provisions of the Constitution and applicable statutes of the State of Idaho, including [Sections 50-1027 through 57-1042, inclusive, Idaho Code, chapters 2 and 9, Title 57, Idaho Code], and duly adopted ordinances of the City. The City hereby covenants and agrees with the owner of this bond that it will keep and perform all the covenants of this bond and of the Ordinance to be by it kept and performed, and reference is hereby made to the Ordinance for a complete statement of such covenants.

The City does hereby pledge and bind itself to set aside from the Revenue Fund out of the Revenue of the System and to pay into the Bond Fund and the Reserve Account thereunder the various amounts required by the Ordinance to be paid into and maintained in such fund and account, all within the times provided by the Ordinance. To the extent more particularly provided by the Ordinance, the amounts so pledged to be paid from the Revenue Fund out of the Revenue of the System into the Bond Fund shall be a lien and prior first charge thereon, equal in rank to the lien and charge of any of the bonds, and the amounts required to pay and secure the payment of Additional Bonds (as defined in the Ordinance) of the City hereafter issued on a parity of lien with the bonds of this issue and superior to all other liens and charges of any kind or nature, except the Operation and Maintenance Expenses of the System.

The pledge of Revenue of the System and other obligations of the City under the Ordinance may be discharged at or prior to the maturity or redemption of the bonds of this issue upon the making of provision for the payment thereof on the terms and conditions set forth in the Ordinance.

[The bonds maturing on or before _____, are not subject to call or redemption prior to their stated dates of maturity. The bonds maturing on or after _____, in whole or in part are subject to optional call for redemption on any date on and after _____, at the option of the City.]

[If not previously redeemed as described above, the bonds maturing on _____, will be called for mandatory redemption at the price of par on the following dates and in the following principal amounts:

<u>Redemption Date</u>	<u>Amount</u>
------------------------	---------------

*Final Maturity]

The bonds of this issue are initially issued in the form of a separate single certificated fully registered Bond for each maturity, and registered in the name of Cede & Co., as nominee of DTC.

Unless this bond is presented by an authorized representative of DTC to the District or its agent for registration of transfer, exchange, or payment, and any certificate issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

This bond shall not be valid or become obligatory for any purpose or be entitled to any security or benefit under the Ordinance until the Certificate of Authentication hereon shall have been manually signed by the Bond Registrar.

It is hereby certified that all acts, conditions, and things required by the Constitution and statutes of the State of Idaho to exist, to have happened, been done, and performed precedent to and in the issuance of this bond have happened, been done, and performed.

IN WITNESS WHEREOF, the City of Hailey, Blaine County, Idaho, has caused this bond to be signed with the facsimile or manual signatures of the Mayor and the City Treasurer, to be attested by the facsimile or manual signature of the City Clerk, all as of this [____] day of _____, 20__].

CITY OF HAILEY, BLAINE COUNTY,
IDAHO

By: [FACSIMILE OR MANUAL]
Mayor

By: [FACIMILE OR MANUAL]
City Treasurer

ATTEST:

[FACSIMILE OR MANUAL]
Clerk

CERTIFICATE OF AUTHENTICATION

Date of Authentication: _____

This bond is one of the bonds described in the within-mentioned Ordinance and is one of the Sewer Revenue [Refunding] Bonds, Series [____], of the City of Hailey, Blaine County, Idaho, dated [_____].

Registrar

By: _____
Title: _____

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto

Name of Transferee: _____

[FACSIMILE OR MANUAL]

Treasurer

[End of Form of Bond]

Section 15. Execution of Bonds. The Bonds shall be executed on behalf of the City with the manual or facsimile signatures of the Mayor and Treasurer of the City, with both signatures attested by the manual or facsimile signature of the Clerk.

Only such Bonds as shall bear thereon a Certificate of Authentication in the form hereinbefore recited, manually executed by the Bond Registrar, shall be valid or obligatory for any purpose or entitled to the benefits of this Ordinance. Such Certificate of Authentication shall be conclusive evidence that the Bonds so authenticated have been duly executed, authenticated, and delivered hereunder and are entitled to the benefits of this Ordinance.

In case either of the officers who shall have executed the Bonds shall cease to be an officer or officers of the City before the Bonds so signed shall have been authenticated or delivered by the Bond Registrar, or issued by the City, such Bonds shall be valid nevertheless and may be issued by the City with the same effect as though the persons who had executed such Bonds had not ceased to be such officers.

Section 16. Defeasance. In the event that money and/or "governmental obligations" (as now or hereinafter defined in chapter 57-504 of the Idaho Code) maturing at such time or times and bearing interest to be earned thereon in amounts sufficient to redeem and retire any Bonds payable out of the Bond Fund in accordance with their terms are irrevocably set aside in a special account to effect such redemption and retirement, then no further payments need be made into the Bond Fund for the payment of the principal of and interest on such Bonds and the owner of such Bonds shall cease to be entitled to any lien, benefit or security of this Ordinance except the right to receive the funds so set aside and pledged, and such Bonds shall be deemed not to be Outstanding hereunder. The City will cause the Bond Registrar to provide notice of defeasance of Bonds to Registered Owners of Bonds being defeased and to each party entitled to receive notice under this Ordinance.

Section 17. Lost or Destroyed Bonds. In case any Bonds shall be lost, stolen or destroyed, the Bond Registrar may authenticate and deliver a new Bond or Bonds of like amount, date and tenor to the owner thereof upon the owner's paying the expenses and charges of the Bond Registrar and the City in connection therewith and upon his filing with the Bond Registrar and the City evidence satisfactory to both that such Bond or Bonds were actually lost, stolen or destroyed and of his ownership thereof, and upon furnishing the City and the Bond Registrar with indemnity satisfactory to both.

Section 18. Events of Default. Each of the following events is hereby declared to be an "event of default" under this Ordinance:

(a) *Non-payment of Principal, Premium or Reserve Deposit.* Payment of the principal of Parity Bonds, or any required Reserve Account deposit, is not made when the same becomes due and payable;

(b) *Non-payment of Interest.* Payment of any installment of interest on Parity Bonds is not made when the same becomes due and payable.

(c) *Incapable to Perform.* The City for any reason is, or is rendered to be, incapable of fulfilling its obligations hereunder.

(d) *Non-Performance of Duties.* The City shall have failed to carry out and to perform all acts and things lawfully required to be carried out or to be performed by it under any contract relating to the Revenues, to the System, or to all or any combination thereof, or otherwise, including, without limitation, this Ordinance, and such failure shall continue for sixty (60) days after receipt of notice from the Registered Owners of at least a majority in principal amount of Parity Bonds, then Outstanding.

(e) *Failure to Reconstruct.* The City discontinues or unreasonably delays or fails to carry out with reasonable dispatch the reconstruction of any revenue-producing part of the System which is destroyed or damaged and is not promptly repaired or replaced (whether such failure to repair is due to impracticability of such repair or replacement, is due to a lack of monies therefor, or for other reasons).

(f) *Appointment of Receiver.* An order or decree is entered by a court of competent jurisdiction, with the consent or acquiescence of the City appointing a receiver or receivers for the System or for the Revenues and any other monies subject to the lien to secure the payment of Parity Bonds, or both such System and such monies, or if any order or decree having been entered without the consent or acquiescence of the City, is not vacated or discharged or stayed on appeal within sixty (60) days after entry.

(g) *Default of any Provisions.* The City makes any default in the due and punctual performance of any other of the representations, covenants, conditions, agreements and other provisions contained in the Bonds authorized or referred to in this Ordinance on its part to be performed, and if such default continues for sixty (60) days after written notice, specifying such default and requiring the same to be remedied, is given to the City by the Registered Owners of at least a majority in principal amount of the Parity Bonds then Outstanding.

Section 19. *Application of Funds and Moneys in Event of Default.* The City covenants that if an Event of Default shall happen and shall not have been remedied, the City, upon demand of the Registered Owners of at least a majority of the principal amount of the Parity Bonds then Outstanding, shall pay over or cause to be paid over to the Bond Registrar, in trust for the Registered Owners (i) forthwith, all moneys, securities and funds then held by the City in any fund under this Ordinance, and (ii) all Pledged Revenues as promptly as practicable after receipt thereof.

During the continuance of an Event of Default, the Bond Registrar shall apply all moneys, securities, funds and Pledged Revenues received by the Bond Registrar pursuant to any right given or action taken under the provisions of this Ordinance and any Supplemental Ordinances as follows and in the following order:

(a) *Compensation and Expenses of Bond Registrar.* To the payment of the reasonable and proper compensation, charges, expenses and liabilities of the Bond Registrar;

(b) *Operating Costs.* To the payment of the amounts required for reasonable and necessary Operation and Maintenance Expenses as necessary, in the judgment of the Bond Registrar, to prevent deterioration of the System or loss of Pledged Revenues therefrom. For this purpose, the books or records and accounts of the City relating to the System shall at all times be subject to the inspection of the Bond Registrar and its representatives and agents during the continuance of such Event of Default;

(c) *Principal or Redemption Price and Interest.* To the payment of the interest and principal or redemption price then due on Parity Bonds as follows:

(1) Unless the principal of all of the Bonds shall have become or have been declared due and payable:

(A) *First:* To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, together with accrued and unpaid interest of the Parity Bonds therefor called for redemption, and if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

(B) *Second:* To the payment of the persons entitled thereto of the unpaid principal or redemption price of the Parity Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, and, if the amount available shall not be sufficient to pay in full all the Parity Bonds due on any date, then to the payment thereof ratably, according to the amounts of principal or redemption due on such date, to the persons entitled thereto, without any discrimination or preference.

(2) If the principal of all of the Parity Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Parity Bonds without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Parity Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in the Parity Bonds.

(3) If and whenever all overdue installments of interest on the Parity Bonds, together with the reasonably and proper charges, expenses and liabilities of the Bond Registrar, and all other sums payable by the City under this Ordinance, including the principal and redemption price of and accrued unpaid interest on the Parity Bonds then payable by declaration or otherwise, shall either be paid by the Bond Registrar for the account of the City, or provision satisfactory to the Bond Registrar shall be made for such payment, and all Events of Default under the Ordinance shall be made good or secured to the satisfaction of the Bond Registrar or provision deemed by the Bond Registrar to be adequate shall be made therefor, the City and the Bond Registrar shall be restored, respectively, to their former positions and rights under the Ordinance. No such restoration of the City and the Bond Registrar in their former positions and rights shall extend to or affect any subsequent Events of Default under the Ordinance or impair any right consequent thereon.

Section 20. Amendments.

(a) The City from time to time and at any time may pass an ordinance or ordinances supplemental hereto, which ordinance or ordinances thereafter shall become a part of this Ordinance, for any one or more or all of the following purposes:

(1) To add to the covenants and agreements of the City in this Ordinance, other covenants and agreements thereafter to be observed, which shall not adversely affect the interests of the Registered Owners of the Outstanding Parity Bonds issued hereunder, or to surrender any right or power herein reserved.

(2) To make such provisions for the purpose of curing any ambiguities or of curing, correcting or supplementing any defective provision contained in this Ordinance, or any Supplemental Ordinance authorizing Additional Bonds in regard to matters or questions arising under such ordinances as the Council may deem necessary or desirable and not inconsistent with such ordinances and which shall not adversely affect, in any material respect, the interest of the Registered Owners of the Outstanding Bonds.

Any such Supplemental Ordinance may be adopted without the consent of the owners of any Bonds at any time outstanding, notwithstanding any of the provisions of subsection (b) of this Section.

(b) With the consent of the owners of not less than sixty-five percent (65%) in aggregate principal amount of the Bonds at the time outstanding, the Council may pass an ordinance or ordinances supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Ordinance or of any Supplemental Ordinance; provided, however, that no such Supplemental Ordinance shall:

(1) Extend the fixed maturity of any Bonds, or reduce the rate of interest thereon, or extend the time of payment of interest from their due date, or reduce the amount of the principal thereof, or reduce any premium payable on the redemption thereof, without the consent of the Registered Owner of each Bond so affected; or

(2) Reduce the aforesaid percentage of Bond owners required to approve any such Supplemental Ordinance, without the consent of the owners of all of the Bonds then Outstanding.

It shall not be necessary for the consent of Bond owners under this subsection (b) to approve the particular form of any proposed Supplemental Ordinance, but it shall be sufficient if such consent shall approve the substance thereof.

(c) Upon the adoption of any Supplemental Ordinance pursuant to the provisions of this Section, this Ordinance shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations of the City under this Ordinance and all owners of Bonds Outstanding hereunder shall thereafter be determined, exercised and enforced thereunder, subject in all respects to such modifications and amendments, and all terms and conditions of any such Supplemental Ordinance shall be deemed to be part of the terms and conditions of this Ordinance for any and all purposes.

(d) Bonds executed and delivered after the execution of any Supplemental Ordinance passed pursuant to the provisions of this Section may have a notation as to any matter provided for in such Supplemental Ordinance, and if such Supplemental Ordinance shall so provide, new Bonds so modified as to conform, in the opinion of the Council, to any modification of this Ordinance contained in any such Supplemental Ordinance, may be prepared and delivered without cost to the owners of any affected Bonds then Outstanding, upon surrender for cancellation of such Bonds in equal aggregate principal amounts.

(e) *Exclusion of Bonds Owned by City.* Bonds owned or held by or for the account of the City shall not be deemed Outstanding for the purpose of any vote or consent or other action or any calculation of Outstanding Bonds in this Ordinance provided for, and shall not be entitled to vote or consent or take any other action in this Ordinance provided for.

(f) *Bonds Held by Securities Repositories.* For so long as the Bonds are held in book entry only form, communications with the owners shall be made with the securities depository who is the "Registered Owner" of the Bonds and communications with (and obtaining consents from) Beneficial Owners shall be made in accordance with the operational procedures of the securities depository that is the "Registered Owner" of the Bonds.

Section 21. Severability. If any one or more of the covenants or agreements provided in this Ordinance to be performed on the part of the City shall be declared by any court of competent jurisdiction to be contrary to law, then such covenant or covenants, agreement or agreements, shall be null and void and shall be deemed separable from the remaining covenants and agreements of this Ordinance and shall in no way affect the validity of the other provisions of this Ordinance or of the Bonds.

Section 22. Applicability/Controlling Provisions. If any Bonds, including the 2014 Bond, are issued to the Bond Bank in accordance with a loan agreement between the City and the Bond Bank (a "Loan Agreement"), then such Bonds and all provisions of this Ordinance and the related Supplemental Ordinance, including the 2014 Supplemental Ordinance, shall be subject to the provisions of such Loan Agreement; and in the event of any conflict with the provisions of such Loan Agreement, the terms of such Loan Agreement shall prevail.

[The remainder of this page has been left blank intentionally.]

Section 23. Effective Date. This Ordinance shall take effect from and after its passage and publication of the summary hereof substantially in the form attached hereto as Exhibit A, in the manner as required by law.

ADOPTED by the Council of the City of Hailey, Blaine County, Idaho, at a regular meeting held this 3rd day of November, 2014.

CITY OF HAILEY, BLAINE COUNTY,
IDAHO

Mayor

ATTEST:

City Clerk

CERTIFICATE OF THE CLERK

I DO HEREBY CERTIFY that I am the duly chosen, qualified and acting Clerk of the City of Hailey, Blaine County, Idaho (the "City"), and keeper of the records of the City Council (the "City Council"); and

I HEREBY CERTIFY:

1. That the attached Ordinance is a true and correct copy of Sewer Bond Ordinance No. 1165 of the City (the "Ordinance"), as finally passed at a regular meeting of the City Council held on the 3rd day of November, 2014, and duly recorded in my office.

2. That said meeting was duly convened and held in all respects in accordance with law, and to the extent required by law, due and proper notice of such meeting was given; that a quorum was present throughout the meeting and a legally sufficient number of members of the City Council voted in the proper manner for the passage of the Ordinance; that all other requirements and proceedings incident to the proper passage of the Ordinance have been duly fulfilled, carried out and otherwise observed, and that I am authorized to execute this certificate.

IN WITNESS WHEREOF, I have hereunto set my hand this 3rd day of November, 2014.

Clerk

EXHIBIT A

**CITY OF HAILEY
BLAINE COUNTY, IDAHO**

Summary of Sewer Bond Ordinance No. 1165, passed November 3, 2014

AN ORDINANCE OF THE CITY OF HAILEY, BLAINE COUNTY, IDAHO, AUTHORIZING THE ISSUANCE AND SALE OF SEWER REVENUE BONDS TO PROVIDE FUNDS NECESSARY TO FINANCE OR REFINANCE IMPROVEMENTS TO THE CITY'S SEWER SYSTEM; FIXING THE FORM, COVENANTS AND CERTAIN TERMS OF THE BONDS TO BE ISSUED; PROVIDING FOR THE REGISTRATION AND AUTHENTICATION OF BONDS; PLEDGING REVENUES FOR PAYMENT OF DEBT SERVICE ON BONDS ISSUED HEREUNDER; PROVIDING FOR CERTAIN FEDERAL TAX COVENANTS WITH RESPECT TO THE BONDS; AND PROVIDING FOR OTHER MATTERS PROPERLY RELATING THERETO.

Section 1 (Definitions) defines certain capitalized terms used in the Ordinance.

Section 2 (Authorization of Bonds; Delegation Authority) authorizes issuance and sale by the City of revenue bonds pursuant to Supplemental Ordinances. Additionally, pursuant to Idaho Code Section 57-235, authorizes delegation to the Mayor and/or City Administrator of acceptance of the final terms and provisions of sale of Bonds.

Section 3 (Registration, Exchange and Payments) adopts a system of registration and exchange for the Bonds and describes the arrangements for paying principal of and interest on Bonds.

Section 4 (Redemption and Purchase) provides that details regarding redemption of Bonds prior to their scheduled maturity shall be provided in the respective Supplemental Ordinance or as accepted by the Mayor and/or City Administrator by authority delegated pursuant to Idaho Code Section 57-235, and provides details regarding purchase of Bonds.

Section 5 (Establishment of Accounts and Funds) ratifies or creates the following funds: the Bond Fund, consisting of the Debt Service Account and Reserve Account, the Revenue Fund, the Project Fund and the Rebate Fund.

Section 6 (Revenue Fund; Priority of Application of Revenue of the System) provides for the allocation of sewer revenues to pay expenses and debt service on Bonds.

Section 7 (Bond Fund) provides for the deposit of revenues into a debt service fund and the maintenance of reserves.

Section 8 (Project Fund) provides for deposit of proceeds of Bonds issued to finance the Cost of Acquisition of a Project, including costs of issuance thereof.

Section 9 (Rebate Fund; Rebate Requirement) provides for deposit of excess earnings on funds under the Ordinance as required by the City's Tax Certificate, which funds are to be held in trust for payment of arbitrage rebate in accordance with Section 148 of the Code.

Section 10 (Authorization for Projects) provides that Project(s) may be financed by issuance of Bonds under Supplemental Ordinances upon determination by the City that it is necessary to preserve the public health, safety and welfare that certain components of the City's System be repaired, replaced and/or improved.

Section 11 (Specific Covenants) includes operating covenants for the benefit of Bondholders.

Section 12 (Tax Covenants) includes covenants to comply with federal tax requirements.

Section 13 (Issuance of Additional Bonds) provides the terms under which the City may issue Additional Bonds.

Section 14 (Form of Bonds) describes the form of the Bonds.

Section 15 (Execution of Bonds) authorizes procedures for execution and authentication of the Bonds.

Section 16 (Defeasance) provides conditions under which Bonds may be defeased.

Section 17 (Lost or Destroyed Bonds) makes provision in case Bonds are lost, stolen or destroyed.

Section 18 (Events of Default) describes the events declared to be "events of default" under the Ordinance.

Section 19 (Application of Funds and Moneys in Event of Default) provides for remedies in the event that a default occurs.

Section 20 (Amendments) provides the terms and conditions pursuant to which the Ordinance may be amended or revised.

Section 21 (Severability) provides that other covenants and agreements in the Ordinance are not affected if one is made invalid.

Section 22 (Applicability/Controlling Provisions) provides that if any Bonds are issued to the Idaho Bond Bank Authority in accordance with a loan agreement between the City and the Bond Bank, then such Bonds and all provisions of the Ordinance and related Supplemental Ordinance shall be subject to the provisions of such Loan Agreement; and in the event of any conflict with the provisions of such loan agreement, the terms of such loan agreement shall prevail.

Section 23 (Effective Date) provides that the Ordinance shall take effect from and after its passage and publication of this summary as required by law.

Exhibit A: Sets forth this summary for publication.

The full text of Sewer Bond Ordinance No. 1165 is available at the office of the City Clerk of the City of Hailey, Idaho, and will be provided to any citizen upon personal request during normal business hours.

Approved this 3rd day of November, 2014.

CITY OF HAILEY, BLAINE COUNTY, IDAHO

Mayor

ATTEST:

City Clerk

CERTIFICATION OF COUNSEL

I, the undersigned, as Bond Counsel to the City of Hailey, Idaho, hereby certify that I have read the attached Summary of Ordinance No. 1165 of the City, and that the same is true and complete and provides adequate notice to the public of the contents of said ordinance.

Dated as of this 3rd day of November, 2014.

S.C. Danielle Quade
Hawley Troxell Ennis & Hawley, LLP, Bond Counsel

**CITY OF HAILEY
BLAINE COUNTY, IDAHO**

Summary of Supplemental Ordinance No. 1166, passed November 3, 2014

A SUPPLEMENTAL ORDINANCE OF THE CITY OF HAILEY, BLAINE COUNTY, IDAHO, AUTHORIZING THE ISSUANCE OF ITS SEWER REVENUE BOND, SERIES 2014, TO PROVIDE FUNDS NECESSARY TO FINANCE IMPROVEMENTS TO THE CITY'S SEWER SYSTEM; DELEGATING AUTHORITY TO APPROVE THE TERMS AND PROVISIONS OF THE NEGOTIATED SALE OF THE BOND PURSUANT TO A LOAN AGREEMENT WITH THE IDAHO BOND BANK AUTHORITY; AND PROVIDING FOR OTHER MATTERS PROPERLY RELATING THERETO.

Section 101 (Definitions) defines certain capitalized terms used in the Supplemental Ordinance.

Section 201 (Authority for Supplemental Ordinance) provides that the Supplemental Ordinance is adopted by the City of Hailey, Blaine County, Idaho (the "City") pursuant to the provisions of the Act and the Sewer Bond Ordinance No. 1165 adopted on November 3, 2014 (the "Master Ordinance").

Section 202 (Finding and Purpose) provides findings and determinations required to provide funds to finance certain improvements to the City's wastewater or sewer system with proceeds of issuance and sale of the City's Sewer Revenue Bond, Series 2014 (the "2014 Bond") pursuant to the Master Ordinance and Loan Agreement dated November 1, 2014 (the "Loan Agreement") between the City and the Idaho Bond Bank Authority (the "Bond Bank").

Section 203 (Authorization of 2014 Bond, Designation; Confirmation of Pledged Revenues) authorizes the 2014 Bond; provides the designation of the 2014 Bond, and security of payment thereof from Pledged Revenues.

Section 204 (Issue Date) provides that the issue date shall be the date of delivery of the 2014 Bond.

Section 205 (2014 Bond Details) provides that the 2014 Bond shall be issued in a single denomination in the form attached to the Supplemental Ordinance and shall bear interest and be payable pursuant to the Loan Agreement with the Bond Bank.

Section 206 (Authorization of Actions Preliminary to Sale of 2014 Bond) providing for negotiated sale of the 2014 Bond to the Bond Bank; authorizes publication of a notice pursuant to Section 57-215, Idaho Code; ratifies actions by City officials related to the Bond Bank.

preliminary official statement; and approves substantial forms of Loan Agreement and continuing disclosure agreement.

Section 207 (Sale of 2014 Bond, Delegation Authority) provides for delegation to Mayor or City Administrator, each a Delegated Officer, to approve the final terms of the 2014 Bond and for execution by the Delegated Officer of the Certificate as to Bond Pricing and Related Matters upon approval of the final terms.

Section 208 (Execution of 2014 Bond) provides for the manner of execution of the 2014 Bond.

Section 209 (Registration of 2014 Bond) provides that the Treasurer of the City shall act as Bond Registrar for the 2014 Bond.

Section 301 (Creation of Accounts and/or Subaccounts under Funds) creates and/or ratifies the following: 2014 Debt Service Account under Bond Fund for payment of debt service on the 2014 Bond; 2014 Project Account under the Project Fund for payment of the costs of the 2014 Project and costs of issuance of the 2014 Bond; Reserve Account under the Debt Service Reserve Account to secure payment of the 2014 Bond and Parity Bonds, as applicable; Rate Stabilization Account to provide additional funds, if funded, to maintain Rate Covenant.

Section 302 (Delivery of 2014 Bond; Application of Proceeds) authorizes delivery of the 2014 Bond to the Bond Bank and to receive payment therefor; provides for allocation and distribution of the 2014 Bond proceeds.

Section 401 (Idaho State Intercept) authorizes compliance with State of Idaho intercept procedures at Section 67-8727, Idaho Code, pursuant to the Loan Agreement.

Section 402 (Pledge of Revenues) provides for pledge of Pledged Revenues of the City to pay debt service on the 2014 Bond on parity with Parity Bonds together with Annual Expense Charges of the Bond Bank.

Section 403 (Tax Certificate) authorizes the City's Tax Certificate to comply with federal tax requirements.

Section 501 (Effect of Supplemental Ordinance) provides that the Master Ordinance is amended and supplemented as provided by the Supplemental Ordinance.

Section 502 (Ratification) ratifies, confirms and approves all proceedings, resolutions, and ordinances in connection with the sale and issuance of the 2014 Bond.

Section 503 (Severability) provides that other covenants and agreements in the Supplemental Ordinance are not affected if one is made invalid.

Section 504 (Conflict) repeals all resolutions, orders and regulations or parts thereof conflicting with the Supplemental Ordinance.

Section 505 (Captions) provides that table of contents and captions and headings are for convenience only.

Section 506 (Savings Clause) provides that except as amended by the Supplemental Ordinance, the Master Ordinance shall remain in full force and effect.

Section 507 (Effective Date) provides that the Supplemental Ordinance shall take effect from and after its passage and publication of this summary as required by law.

Exhibit A: Sets forth the substantial form of the 2014 Bond.

Exhibit B: Sets forth the substantial form of the Notice of Private Negotiated Bond Sale.

Exhibit C: Sets forth the substantial form of the Loan Agreement.

Exhibit D: Sets forth the substantial form of the Certificate as to Bond Pricing and Related Matters.

Exhibit E: Sets forth this summary for publication.

The full text of Supplemental Ordinance No. 1166 is available at the office of the City Clerk of the City, and will be provided to any citizen upon personal request during normal business hours.

Approved this 3rd day of November, 2014.

CITY OF HAILEY, BLAINE COUNTY,
IDAHO

Mayor

ATTEST:

City Clerk

CERTIFICATION OF COUNSEL

I, the undersigned, the legal advisor to the City of Hailey, Idaho, hereby certify that I have read the attached Summary of Supplemental Ordinance No. 1166 of the City, and that the same is true and complete and provides adequate notice to the public of the contents of said ordinance.

Dated as of this 3rd day of November, 2014.

S.C. Danielle Quade
Hawley Troxell Ennis & Hawley LLP
Bond Counsel

Publish: Idaho Mountain Express November 5, 2014

**CITY OF HAILEY
BLAINE COUNTY, IDAHO**

SUPPLEMENTAL ORDINANCE NO. 1166

A SUPPLEMENTAL ORDINANCE OF THE CITY OF HAILEY, BLAINE COUNTY, IDAHO, AUTHORIZING THE ISSUANCE OF ITS SEWER REVENUE BOND, SERIES 2014, TO PROVIDE FUNDS NECESSARY TO FINANCE IMPROVEMENTS TO THE CITY'S SEWER SYSTEM; DELEGATING AUTHORITY TO APPROVE THE TERMS AND PROVISIONS OF THE NEGOTIATED SALE OF THE BOND PURSUANT TO A LOAN AGREEMENT WITH THE IDAHO BOND BANK AUTHORITY; AND PROVIDING FOR OTHER MATTERS PROPERLY RELATING THERETO.

Approved: November 3, 2014

TABLE OF CONTENTS

ARTICLE I.....2
 Section 101. Definitions.....2
ARTICLE II.....4
 Section 201. Authority for Supplemental Ordinance.....4
 Section 202. Finding and Purpose.....4
 Section 203. Authorization of 2014 Bond; Designation; Confirmation of Pledged Revenues.....4
 Section 204. Issue Date.....4
 Section 205. 2014 Bond Details.....4
 Section 206. Authorization of Actions Preliminary to Sale of 2014 Bond.....4
 Section 207. Sale of 2014 Bond, Delegation Authority.....5
 Section 208. Execution of 2014 Bond.....6
 Section 209. Registration of 2014 Bond.....6
ARTICLE III.....6
 Section 301. Creation of Accounts and/or Subaccounts under Funds.....6
 Section 302. Delivery of 2014 Bond; Application of Proceeds.....8
ARTICLE IV.....9
 Section 401. Idaho State Intercept.....9
 Section 402. Pledge of Revenues.....9
 Section 403. Tax Certificate.....9
ARTICLE V.....9
 Section 501. Effect of Supplemental Ordinance.....9
 Section 502. Ratification.....9
 Section 503. Severability.....9
 Section 504. Conflict.....9
 Section 505. Captions.....10
 Section 506. Savings Clause.....10
 Section 507. Effective Date.....10

- Exhibit A - Form of Bond
- Exhibit B - Notice of Private Negotiated Bond Sale
- Exhibit C - Form of Loan Agreement
- Exhibit D - Form of Certificate as to Bond Pricing and Related Matters
- Exhibit E - Summary of Supplemental Ordinance

SUPPLEMENTAL ORDINANCE NO. 1166

A SUPPLEMENTAL ORDINANCE OF THE CITY OF HAILEY, BLAINE COUNTY, IDAHO, AUTHORIZING THE ISSUANCE OF ITS SEWER REVENUE BOND, SERIES 2014, TO PROVIDE FUNDS NECESSARY TO FINANCE IMPROVEMENTS TO THE CITY'S SEWER SYSTEM; DELEGATING AUTHORITY TO APPROVE THE TERMS AND PROVISIONS OF THE NEGOTIATED SALE OF THE BOND PURSUANT TO A LOAN AGREEMENT WITH THE IDAHO BOND BANK AUTHORITY; AND PROVIDING FOR OTHER MATTERS PROPERLY RELATING THERETO.

BE IT ORDAINED BY THE MAYOR AND CITY COUNCIL OF THE CITY OF HAILEY, BLAINE COUNTY, IDAHO, AS FOLLOWS:

WHEREAS, the City of Hailey, Blaine County, Idaho (the "City") is a body politic and corporate duly organized, operating and existing under and pursuant to the provisions of the Constitution and the laws of the State of Idaho;

WHEREAS, pursuant to a special municipal revenue bond election duly called by the City and held on May 20, 2014 (the "Bond Election"), there was submitted to the qualified electors of the City the following proposition:

QUESTION: Shall the City of Hailey, Blaine County, Idaho (the "City") issue and sell its negotiable revenue bonds in the amount of up to \$6,545,000 for the purpose of financing the design and construction of certain improvements to the City's wastewater system (the "System"), the System constituting and being operated as a revenue-producing public utility, and to pay expenses properly incident thereto including costs of issuance of such bonds, said bonds due in such installments as fixed by the City Council of the City, the last installment due and payable not more than twenty (20) years from the date of the bonds, as more fully provided in Ordinance No. 1148 adopted by the City Council of the City on March 20, 2014 (such revenue bonds shall be payable from the revenues of the System, as improved, and not from ad valorem property taxes)?

WHEREAS, a majority of the votes cast at the Bond Election were cast in favor of said proposition and the issuance of up to \$6,545,000 of revenue bonds of the City was authorized for the purpose of financing the design and construction of certain improvements to wastewater treatment facilities in the City's wastewater or sewer system and to pay the costs of issuance thereof;

WHEREAS, pursuant to the successful Bond Election, on the date hereof, the members of the City's Council (the "Council") adopted Sewer Bond Ordinance No. 1165 (the "Master

Ordinance”) providing for the issuance and sale of revenue bonds to finance or refinance Projects, as defined thereunder, by adoption of supplemental ordinances thereto, and the Council adopts this Supplemental Ordinance to authorize its 2014 Bond to finance the 2014 Project, as such terms are hereinafter defined;

WHEREAS, the Idaho Bond Bank Authority (the “Bond Bank”), an independent public body corporate and politic duly created and operating pursuant to Title 67, Chapter 87, Idaho Code, as amended or supplemented (the “Bond Bank Act”), is authorized and empowered by the Bond Bank Act to issue bonds for the purpose of purchasing municipal bonds and/or making loans to municipalities, and has provided for the issuance of its Idaho Bond Bank Authority Revenue Bonds, Series 2014C (the “Bond Bank Bonds”);

WHEREAS, with a portion of the proceeds of the sale of the Bond Bank Bonds, the Bond Bank has agreed to make a loan to the City to finance the 2014 Project and has provided to the City the substantial form of Loan Agreement, which is attached hereto as Exhibit C (the “Loan Agreement”) between the City and the Bond Bank wherein the City agrees to sell and the Bond Bank agrees to purchase the 2014 Bond from the City to evidence the loan under the Loan Agreement;

WHEREAS, pursuant to Section 57-235, Idaho Code, the Council desires to delegate authority, in accordance with the specific instructions and procedures set forth herein, for determination and approval of certain final terms and provisions of the Loan Agreement, the 2014 Bond, and other matters at the time the Bond Bank Bonds are sold.

NOW, THEREFORE, THE MAYOR AND COUNCIL OF THE CITY OF HAILEY, BLAINE COUNTY, IDAHO, FURTHER ORDAIN AS FOLLOWS:

ARTICLE I

Section 101. Definitions. Except as provided in this Section, all defined terms contained in this Supplemental Ordinance shall have the same meanings as set forth in the Master Ordinance. As used in this Supplemental Ordinance, in addition to the terms defined in the WHEREAS clauses of this Supplemental Ordinance or if the context shall otherwise require, the following terms shall have the following meanings:

Act means collectively the Revenue Bond Act, Idaho Code Sections 50-1027 through 50-1042, inclusive, and the Municipal Bond Law of the State of Idaho, being Idaho Code, Title 57, Chapter 2.

Bond Bank Trustee means The Bank of New York Mellon Trust Company, N.A., as the current trustee under the Trust Agreement.

Delegated Officer means the Mayor or City Administrator, each with authority to act alone.

Delegation Certificate means the Certificate as to Bond Pricing and Related Matters, substantially in the form of Exhibit D hereto, signed and delivered by the Delegated Officer to approve the final terms and provisions of the Loan Agreement and 2014 Bond upon the sale of the Bond Bank Bonds.

Income Fund, for purposes of the Loan Agreement, means the Revenue Fund created under the Master Ordinance.

Repayment Installment means any amount that the City is required to pay directly to the Bond Bank Trustee pursuant to the Loan Agreement as a repayment of the loan made to the City under the Loan Agreement as evidenced by the 2014 Bond.

Repayment Installment Date means the date corresponding to each Repayment Installment set forth on Schedule 1 to the Loan Agreement and to be attached to the form of 2014 Bond attached hereto as Exhibit A; notwithstanding, however, payments from the City are to be transmitted to the Bond Bank Trustee at least fifteen (15) days prior to the Repayment Installment Date.

Reserve Account Requirement means the amount to be deposited into the 2014 Reserve Account established hereunder to secure payment of principal and interest of the 2014 Bond and Parity Bonds as required by the Loan Agreement.

Supplemental Ordinance means this Supplemental Ordinance No. 1166 adopted by the Council on November 3, 2014, authorizing the issuance of the 2014 Bond, setting forth certain requirements of the terms of sale of the 2014 Bond, delegating authority to approve the final terms and provisions of the 2014 Bond pursuant to the Loan Agreement, and providing for related matters.

Trust Agreement means that certain Master Trust Agreement between the Bond Bank and the Bond Bank Trustee, as successor trustee, dated as of December 1, 2004, as previously supplemented, and as supplemented by the Twenty-Fourth Supplemental Trust Agreement dated November 1, 2014.

2014 Bond means the City's Sewer Revenue Bond, Series 2014 authorized hereunder in substantially the form attached to this Supplemental Ordinance as Exhibit A.

2012 Bond means the City's Sewer Revenue Refunding Bond, Series 2012, issued by the City on December 20, 2012, pursuant to Title 67, chapter 87, Idaho, as amended or supplemented, and as authorized pursuant to Ordinance No. 1114 adopted by the Council on November 19, 2012, which bond was issued and sold to the Idaho Bond Bank Authority to refinance certain improvements to the System, the payment of which is secured by the City's pledge of Net Revenues of the System.

The terms “hereby,” “hereof,” “hereto,” “herein,” “hereunder,” and any similar terms as used in this Supplemental Ordinance refer to this Supplemental Ordinance.

ARTICLE II

Section 201. Authority for Supplemental Ordinance. This Supplemental Ordinance is adopted pursuant to the provisions of the Act and the Master Ordinance. This Supplemental Ordinance contemplates the issuance and sale of the 2014 Bond through a delegation of authority as provided in Section 207 hereof. Unless the context clearly indicates otherwise -- for example, the provisions of Section 206(a) through (c) which take effect upon adoption of this Supplemental Ordinance-- this Supplemental Ordinance shall not take effect and no provision thereof shall be binding upon the City unless and until the 2014 Bond is sold and issued.

Section 202. Finding and Purpose. In compliance with the Master Ordinance, the 2014 Bond is hereby authorized to be issued to the Bond Bank in exchange for the loan under the Loan Agreement to provide funds with which to finance the 2014 Project.

Section 203. Authorization of 2014 Bond; Designation; Confirmation of Pledged Revenues. In accordance with and subject to the terms, conditions and limitations established by the Act, and contained in the Master Ordinance and this Supplemental Ordinance, a revenue bond of the City is hereby authorized to be issued to the Bond Bank and shall be designated “Sewer Revenue Bond, Series 2014.” The 2014 Bond is secured by the pledge of the Pledged Revenues under Section 7 of the Master Ordinance equally and ratably with all Parity Bonds issued under the Master Ordinance, and the 2012 Bond.

Section 204. Issue Date. The 2014 Bond shall be dated as of the date of its delivery.

Section 205. 2014 Bond Details. The 2014 Bond shall be issued in fully registered form only, without coupons, in a single denomination in substantially the form attached as Exhibit A hereto. The 2014 Bond shall bear interest from the date of delivery, or the most recent date to which interest has been paid or duly provided for, and shall be payable in Repayment Installments on the Repayment Installment Dates as provided in the Loan Agreement and pursuant to Schedule 1 to be attached to the 2014 Bond upon issuance, and shall be subject to redemption prior to maturity pursuant to the terms and provisions of the 2014 Bond and in accordance with the Loan Agreement.

Section 206. Authorization of Actions Preliminary to Sale of 2014 Bond.

- (a) The Council desires to sell the 2014 Bond pursuant to negotiated sale to the Bond Bank pursuant to Idaho Code Section 57-232 and the Bond Bank Act.
- (b) The Council ratifies and approves actions previously taken by the officials of the City to assist its bond counsel and financial advisor in the preparation, completion and distribution of the preliminary official

statement related to the offering of the Bond Bank Bonds and sections thereof related to the City and the 2014 Bond. The final official statement of the Bond Bank for the sale of the Bond Bank Bonds is approved for distribution in substantially the form presented at this meeting.

- (c) In accordance with Idaho Code Section 57-215, the Notice of Private Negotiated Bond Sale (the "Notice of Sale") in the form attached as Exhibit B hereto is hereby ratified and approved and the City's bond counsel is authorized to complete the Notice of Sale and effect timely publication thereof prior to the sale of the 2014 Bond and approval and execution of the Loan Agreement.
- (d) The Loan Agreement in substantially the form attached hereto as Exhibit C is hereby ratified and approved. Pursuant to Section 207 hereof, upon the sale of the 2014 Bond and inclusion of the final terms of the 2014 Bond therein, the Delegated Officer is hereby authorized to execute and deliver the Loan Agreement. The officials of the City are authorized to do or perform all such acts as may be necessary or advisable to comply with the Loan Agreement and to carry the same into effect. To the extent the provisions of this Supplemental Ordinance or the Master Ordinance and the Loan Agreement shall be found to be in conflict, the provisions of the Loan Agreement shall govern.
- (e) The City has provided a continuing disclosure undertaking pursuant to Section 5.9 of the Loan Agreement. The undertaking thereunder is hereby ratified and approved in all respects.

Section 207. Sale of 2014 Bond, Delegation Authority.

- (a) Pursuant to Section 57-235, Idaho Code, as amended, the Council hereby delegates to the Mayor and City Administrator, each with the authority to act alone (hereinafter each referred to as the "Delegated Officer"), the power to make the following determinations on the date of sale of the 2014 Bond to the Bond Bank upon the sale of the Bond Bank Bonds, without any requirement that the members of the Council meet to approve such determinations, but subject to the limitations provided:
 - (i) The rate of interest to be borne by the 2014 Bond, as measured by the true interest cost, not to exceed four and one-half percent (4.50%).
 - (ii) The principal amount of the 2014 Bond, not to exceed \$6,545,000.
 - (iii) The Repayment Installment Dates.

(iv) The amount of principal of the 2014 Bond maturing, or subject to mandatory sinking fund redemption, in any particular year, and the rate of interest accruing thereon.

(v) The final maturity of the 2014 Bond, to be not later than twenty (20) years from the date of the 2014 Bond.

(vi) The price at which the 2014 Bond will be sold (including any underwriter's discount, original issue premium and original issue discount).

(vii) The dates, if any, on which, and the prices at which, the 2014 Bond will be subject to optional redemption.

(viii) The amount of 2014 Bond proceeds to fund the Reserve Account.

- (b) Upon the sale of the Bond Bank Bonds and approval of the Loan Agreement, including the final terms and provisions of the 2014 Bond, the Delegated Officer shall execute a Delegation Certificate substantially in the form attached hereto as Exhibit D reflecting the final terms and provisions of the 2014 Bond and certifying that the final terms and provisions of the 2014 Bond are consistent with, not in excess of and no less favorable than the terms set forth in subparagraph (a) above, and as approved by the electorate of the City pursuant to the Bond Election.

Section 208. Execution of 2014 Bond. The 2014 Bond shall be executed on behalf of the City by the Mayor and Treasurer of the City and attested to by the City Clerk, and the corporate seal of the City shall be impressed or printed thereon, if any. The certificate of the Treasurer of the City attached to the 2014 Bond shall be signed by the Treasurer of the City, with the seal of the City impressed or printed thereon, if any. The said officials and each of them are hereby authorized and instructed to execute the 2014 Bond accordingly.

Section 209. Registration of 2014 Bond. The Treasurer of the City shall act as Bond Registrar with respect to the 2014 Bond and shall keep, or cause to be kept the Bond Register to record the registration and transfer of the 2014 Bond, which shall be open to inspection by the City. The 2014 Bond is not issued as a book-entry-only bond under The Depository Trust Company.

ARTICLE III

Section 301. Creation of Accounts and/or Subaccounts under Funds.

- (a) The following accounts and/or subaccounts under certain funds previously existing or created under the Master Ordinance are hereby created and/or ratified on the accounting records of the City:
- (i) 2014 Debt Service Account, a subaccount under the Bond Fund created under the Master Ordinance, to be held by the City for payment of principal and interest of the 2014 Bond;
 - (ii) 2014 Project Account, a subaccount of the Project Fund under the Master Ordinance, to be held by the City for payment of the Cost of Acquisition of the 2014 Project and to pay certain costs of issuance of the 2014 Bond as provided hereinafter.
 - (iii) Reserve Account, a subaccount under the Debt Service Reserve Account established under the Bond Fund created under the Master Ordinance, to be held by the City.
 - (iv) Rate Stabilization Account, an existing fund held by the City, and ratified hereby as required by the Loan Agreement with respect to payment of debt service on Parity Bonds.
- (b) There shall be deposited into the 2014 Debt Service Account the (i) Pledged Revenues and (ii) such other funds as the City shall designate as irrevocably available to pay principal and interest on the 2014 Bond. The City shall make disbursements from the 2014 Debt Service Account in accordance with Section 402 below and pursuant to the Loan Agreement.
- (c) There shall be deposited into the 2014 Project Account the 2014 Bond proceeds referred to in Section 302(d) below to pay the Cost of Acquisition of the 2014 Project and certain costs of issuance of the 2014 Bond, if funded.
- (d) There shall be deposited into the 2014 Reserve Account the monies referred to in Section 302(b) below, in an aggregate amount to satisfy the Reserve Account Requirement pursuant to the Loan Agreement. The City covenants to maintain at all times an amount in the Reserve Account equal to the Reserve Account Requirement, except for withdrawals authorized therefrom, for so long as the 2014 Bond and 2012 Bond remain outstanding.
- (e) Pursuant to the Loan Agreement, funds may be deposited into and transferred from the Rate Stabilization Account as determined from time to time by the City pursuant to and for all rate requirement purposes under Section 5.11 of the Loan Agreement. The City may transfer funds into the

Rate Stabilization Account from the Revenue Fund or any other legally available source.

- (f) There shall be deposited into and disbursed from the Rebate Account created under the Master Ordinance the sums required under the Code.

Section 302. Delivery of 2014 Bond: Application of Proceeds. The Treasurer of the City or other authorized official of the City is hereby instructed to make delivery of the 2014 Bond to the Bond Bank and to receive payment therefor in accordance with the terms of the Loan Agreement as approved by the Delegated Officer, and to set the proceeds of the sale of the 2014 Bond aside for deposit and use as follows:

- (a) Accrued interest, if any, on the 2014 Bond from its dated date to the date of delivery of the 2014 Bond shall be deposited into the 2014 Debt Service Account of the Bond Fund;
- (b) Bond proceeds in the amount of the Reserve Requirement required under the Loan Agreement shall be deposited into the City's Reserve Account held by the City;
- (c) Pursuant to the Loan Agreement, a portion of the Bond proceeds in the amount of the City's pro rata share of the costs of issuance of the Bond Bank Bonds shall be deposited with the Bond Bank Trustee for payment of such costs together with the amount to pay certain costs of issuance of the 2014 Bond, if applicable.
- (d) The remaining Bond Proceeds shall be deposited into the 2014 Project Account held by the City to be used to finance the Cost of Acquisition of the 2014 Project and certain costs of issuance of the 2014 Bond.

ARTICLE IV

Section 401. Idaho State Intercept. The City acknowledges and agrees to comply with the State of Idaho intercept procedures contained in Section 67-8727, Idaho Code, as provided in the Loan Agreement with respect to payment of the Bond Bank Bonds and as shall be in effect while the 2014 Bond is outstanding.

Section 402. Pledge of Revenues. The City covenants and agrees that to pay the Repayment Installments, including principal of and interest and the "Annual Expense Charges" as due and as defined under the Loan Agreement, falling due to and including the final maturity of the 2014 Bond, the City shall appropriate from the Revenue Fund such amounts sufficient, together with funds then on deposit in the 2014 Debt Service Account, to meet the Repayment Installments on the 2014 Bond and Annual Expense Charges.

The Pledged Revenues of the City are hereby pledged for the prompt payment of the Repayment Installments on the 2014 Bond and Annual Expense Charges as the same become due on parity with outstanding Parity Bonds.

Section 403. Tax Certificate. Upon issuance of the 2014 Bond, a Tax Certificate, in form acceptable to the City's bond counsel, with such insertions and changes therein as shall be approved by the Mayor, the City Administrator or Treasurer of the City or such other appropriate officials of the City, is hereby authorized and approved. Such approval of said official of the City shall be conclusively established by their execution of the Tax Certificate in its final form.

ARTICLE V

Section 501. Effect of Supplemental Ordinance. To the extent that this Supplemental Ordinance amends or supplements the Master Ordinance, the Master Ordinance shall be treated as so amended or supplemented

Section 502. Ratification. All proceedings, resolutions, ordinances, and actions of the Council, the City, and their officers, agents and employees taken in connection with the authorization, sale and issuance of the 2014 Bond are hereby in all respects ratified, confirmed and approved.

Section 503. Severability. It is hereby declared that all parts of this Supplemental Ordinance are severable, and if any section, paragraph, clause or provision of this Supplemental Ordinance shall, for any reason, be held to be invalid or unenforceable, the invalidity or unenforceability of any such section, paragraph, clause or provision shall not affect the remaining sections, paragraphs, clauses or provisions of this Supplemental Ordinance.

Section 504. Conflict. All resolutions, orders and regulations or parts thereof heretofore adopted or passed which are in conflict with any of the provisions of this Supplemental Ordinance are, to the extent of such conflict, hereby repealed.

Section 505. Captions. The table of contents and captions or headings herein are for convenience of reference only and in no way define, limit or describe the scope or intent of any provisions or sections of this Supplemental Ordinance.

Section 506. Savings Clause. Except as amended and/or supplemented by this Supplemental Ordinance, the Master Ordinance shall remain in full force and effect.

Section 507. Effective Date. This Supplemental Ordinance shall take effect from and after its passage and publication of the summary substantially in the form attached hereto as Exhibit F, in the manner as required by law.

ADOPTED by the Council of the City of Hailey, Blaine County, Idaho, at a regular meeting thereof held this 3rd day of November, 2014.

CITY OF HAILEY, BLAINE COUNTY,
IDAHO

Mayor

ATTEST:

City Clerk

EXHIBIT A

[FORM OF BOND]

UNITED STATES OF AMERICA

Registered

Registered

R-1

\$ _____

CITY OF HAILEY, BLAINE COUNTY, STATE OF IDAHO

SEWER REVENUE BOND, SERIES 2014

PRINCIPAL
AMOUNT:

DATED
DATE:

MATURITY
DATE:

\$

___/___/2014

___/___/20___

Registered Owner: IDAHO BOND BANK AUTHORITY

Principal Amount: ** _____ AND NO/100 DOLLARS**

KNOW ALL MEN BY THESE PRESENTS that City of Hailey, Blaine County, State of Idaho (the "City"), acknowledges itself indebted and for value received hereby promises to pay to the registered owner identified above, or registered assigns, the principal amount identified above payable in principal installments together with interest per annum from the date hereof until maturity hereof pursuant to the schedule of Repayment Installments and Repayment Installment Dates attached hereto as Schedule 1. Both principal of and interest on this Bond are payable in lawful money of the United States of America to the registered owner hereof and evidence the City's obligations due to the Idaho Bond Bank Authority, as purchaser hereof (the "Bond Bank"), pursuant to the terms and provisions of the Loan Agreement between the City and the Bond Bank dated November 1, 2014 (the "Loan Agreement").

Repayment Installments, including principal and interest on this Bond and any other moneys due to the Bond Bank pursuant to the Loan Agreement, shall be paid by the City directly to The Bank of New York Mellon Trust Company, N.A., San Francisco, California, as Trustee, for and on behalf of the Bond Bank as provided in the Loan Agreement, at least fifteen (15) days before the Repayment Installment Date.

The Repayment Installments due on or prior to September 15, 2024, are not subject to prepayment. The Repayment Installments due on and after September 15, 2025, are subject to optional prepayment, in whole or part on any date on or after September 15, 2024, pursuant to the terms and conditions of the Loan Agreement. Written notice of prepayment shall be given by

the City to the Bond Bank and the Bond Bank Trustee sixty (60) days prior to prepayment pursuant to Article VII of the Loan Agreement. Interest on this Bond shall cease to accrue as to the amount of principal being prepaid after the date fixed for prepayment if notice has been properly given and funds equal to the amount of prepayment have been deposited at the place of payment at that time.

This Bond is issued in conformity with and after full compliance with the Constitution of the State of Idaho and pursuant to the provisions of the Act hereinafter defined and all other laws applicable thereto. It is hereby expressly certified and recited that all acts and conditions requisite and precedent to the validity of this issue have been properly done and performed in regular and due time, form and manner, as required by law; that the total outstanding indebtedness of the City, including the whole of this issue, does not exceed any constitutional or statutory debt limit; that the City's Revenues are hereby pledged for the due and punctual payment of the principal hereof and interest hereon on parity with all Parity Bonds, as defined under the Bond Ordinance hereinafter described.

This Bond is issued under and by virtue of the charter of the City, the Revenue Bond Act, Idaho Code Sections 50-1027 through 50-1042, inclusive, the Municipal Bond Law of the State of Idaho, being Idaho Code, Title 57, chapters 2 and 9, and all acts of the Legislature of the State of Idaho amendatory thereof and supplementary thereto (collectively, the "Act"), and under and pursuant to Sewer Bond Ordinance No. 1165 of the City adopted November 3, 2014, as supplemented by Supplemental Ordinance No. 1166 of the City adopted November 3, 2014 (collectively, the "Bond Ordinance") for the purpose of providing funds to finance certain improvements to the City's wastewater or sewer system and further evidences the City's payment obligations under the Loan Agreement.

This Bond is transferable, as provided in the Bond Ordinance, only upon the books of the City kept for that purpose at the principal office of the City, by the registered owner hereof in person or by his attorney duly authorized in writing, upon surrender hereof together with a written instrument of transfer satisfactory to the City, duly executed by the registered owner or such duly authorized attorney, and, thereupon, the City shall issue in the name of the transferee a new registered Bond of authorized denominations of the same aggregate principal amount, series, designation, maturity and interest rate as the surrendered Bond, all as provided in the Bond Ordinance, upon the payment of the charges therein prescribed, if any. The City may treat and consider the person in whose name this Bond is registered on the registration books kept by the City as the holder and absolute owner hereof for the purpose of receiving payment of, or on account of, the principal or redemption price hereof and interest due hereon and for all other purposes whatsoever.

The City has acknowledged in the Bond Ordinance the State of Idaho intercept procedures contained in Section 67-8727, Idaho Code, as provided in the Loan Agreement and as shall be in effect while this Bond is outstanding.

Except as otherwise provided herein and unless the context clearly indicates otherwise, words and phrases used herein shall have the same meanings as such words and phrases in the Bond Ordinance.

* * * * *

IN WITNESS WHEREOF, the City of Hailey, Blaine County, State of Idaho, by its duly constituted, legally qualified and acting members of the Council, has caused this Bond to be signed by the Mayor and Treasurer of the City and attested by the City Clerk, as of the Dated Date identified above.

Mayor

Treasurer

Attest:

City Clerk

* * * * *

* * * * *

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto _____ the within Bond and all rights thereunder, and hereby irrevocably constitutes and appoints _____, to transfer the within Bond on the records kept for the registration therefor with full power of substitution in the premises.

DATED: _____

Registered Owner

NOTE: The signature on this Assignment must correspond with the name of the registered owner as it appears upon the face of the within Bond in every particular, without alteration or enlargement or any change whatever.

SIGNATURE GUARANTEED:

NOTICE: Signature(s) must be guaranteed by an "eligible guarantor institution" that is a member of or a participant in a "signature guarantee program" (e.g., the Securities Transfer Agents Medallion Program, the Stock Exchange Medallion Program or the New York Stock Exchange, Inc. Medallion Signature Program).

CERTIFICATE OF CITY TREASURER

STATE OF IDAHO)
)
COUNTY OF BLAINE)

I, the undersigned, the duly constituted, legally qualified and acting Treasurer of the City of Hailey, Blaine County, Idaho, hereby certify that the within Bond has been registered and recorded in my office pursuant to the provisions of Chapter 2, Title 57, Idaho Code, and all acts amendatory thereof and supplementary thereto.

WITNESS my hand this 3rd day of November, 2014.

Treasurer

SCHEDULE 1 TO BOND

REPAYMENT INSTALLMENTS AND REPAYMENT INSTALLMENT DATES

EXHIBIT B

NOTICE OF PRIVATE NEGOTIATED BOND SALE

- NOTICE OF NEGOTIATED PRIVATE BOND SALE

Pursuant to Section 57-215(2), Idaho Code, public notice is hereby given by the City of Hailey, Blaine County, Idaho (the "City"), of negotiation for and private sale to the Idaho Bond Bank Authority (the "Purchaser") of its Sewer Revenue Bond, Series 2014, in the principal amount not to exceed \$6,545,000 (the "Bond") pursuant to a Loan Agreement between the City and the Purchaser ("Loan Agreement") to be executed on the date of sale of the Bond and setting forth the final terms and provisions of the Bond. The Bond shall be authorized to be issued by the City's Council pursuant to a Supplemental Ordinance (the "Supplemental Ordinance") supplementing a Master Bond Ordinance (the "Master Ordinance," and together with the Supplemental Ordinance, the "Bond Ordinance"), to be adopted November 3, 2014. The sale of the Bond, upon satisfying certain requirements contained in the Supplemental Ordinance pursuant to Idaho Code Section 57-235, is expected to occur on or around November 6, 2014. Additional information concerning the terms and provisions of the Bond, the Bond Ordinance, the Loan Agreement, the security for payment of the Bond, and other pertinent information relating to the Bond is available for public inspection at the offices of the City at 115 Main Street South, Suite H, Hailey, Idaho, Telephone: 208.788.4221.

Dated: October 29, 2014.

CITY OF HAILEY, BLAINE COUNTY, IDAHO

By: Heather Dawson, City Administrator

EXHIBIT C

FORM OF LOAN AGREEMENT

EXHIBIT D

FORM OF CERTIFICATE AS TO BOND PRICING AND RELATED MATTERS

The undersigned official of the City of Hailey, Blaine County, Idaho (the "City"), as a Delegated Officer, does hereby certify as follows (capitalized terms used herein and not defined have the meanings assigned to such terms in the Ordinance, hereinafter defined):

1. The undersigned is familiar with the City's Sewer Bond Ordinance No. 1165 adopted November 3, 2014 (the "Master Ordinance"), as supplemented by Supplemental Ordinance No. 1166 adopted on November 3, 2014 (the "Supplemental Ordinance," and collectively with the Master Ordinance,, the "Bond Ordinance") to authorize issuance of the City's Sewer Revenue Bond, Series 2014 (the "2014 Bond") and related documents, which 2014 Bond is sold this date to the Idaho Bond Bank Authority (the "Bond Bank") pursuant to the Loan Agreement dated November 1, 2014, between the City and the Bond Bank (the "Loan Agreement").

2. Section 207 of the Supplemental Ordinance delegated to the undersigned, as a Delegated Officer, the power to make certain determinations on the date of sale of the 2014 Bond.

3. Pursuant to such delegation, the undersigned Delegated Officer hereby determines as follows:

- a. Details of the terms of the 2014 Bond are reflected in the final bond sale number schedules provided by the financial advisor to the Bond Bank this date, which schedules are attached as Exhibit A hereto.
- b. The rate of interest to be borne by the 2014 Bond is _____% per annum.
- c. The principal amount of the 2014 Bond is \$_____.
- d. The Repayment Installment Dates and the amount of principal of the 2014 Bond maturing, or subject to mandatory sinking fund redemption, in any particular year are reflected on the attached Exhibit B.
- e. The final maturity of the 2014 Bond is _____.
- f. The 2014 Bond is sold at the purchase price of \$_____, representing the principal amount thereof, plus premium in the amount of \$_____, less underwriter's discount of \$_____.

g. The 2014 Bond is subject to optional redemption as follows:

_____.

h. The amount of 2014 Bond proceeds to fund the Reserve Account is \$_____.

4. The undersigned Delegated Officer hereby certifies that the final terms and provisions of the 2014 Bond, as described above and in the attached Exhibit A and Exhibit B, are consistent with, not in excess of and no less favorable than the terms set forth in Section 207 of the Supplemental Ordinance and as approved by the electorate of the City pursuant to the Bond Election.

5. The undersigned Delegated Officer has therefore executed and delivered the Loan Agreement this date.

DATED: November ____, 2014.

CITY OF HAILEY, BLAINE COUNTY, IDAHO

By: _____
Title: _____

EXHIBIT A

FINAL NUMBERS

EXHIBIT B

**SCHEDULE OF REPAYMENT INSTALLMENTS AND
REPAYMENT INSTALLMENT DATES**

EXHIBIT E

**CITY OF HAILEY
BLAINE COUNTY, IDAHO**

Summary of Supplemental Ordinance No. 1166, passed November 3, 2014

A SUPPLEMENTAL ORDINANCE OF THE CITY OF HAILEY, BLAINE COUNTY, IDAHO, AUTHORIZING THE ISSUANCE OF ITS SEWER REVENUE BOND, SERIES 2014, TO PROVIDE FUNDS NECESSARY TO FINANCE IMPROVEMENTS TO THE CITY'S SEWER SYSTEM; DELEGATING AUTHORITY TO APPROVE THE TERMS AND PROVISIONS OF THE NEGOTIATED SALE OF THE BOND PURSUANT TO A LOAN AGREEMENT WITH THE IDAHO BOND BANK AUTHORITY; AND PROVIDING FOR OTHER MATTERS PROPERLY RELATING THERETO.

Section 101 (Definitions) defines certain capitalized terms used in the Supplemental Ordinance.

Section 201 (Authority for Supplemental Ordinance) provides that the Supplemental Ordinance is adopted by the City of Hailey, Blaine County, Idaho (the "City") pursuant to the provisions of the Act and the Sewer Bond Ordinance No. 1165 adopted on November 3, 2014 (the "Master Ordinance").

Section 202 (Finding and Purpose) provides findings and determinations required to provide funds to finance certain improvements to the City's wastewater or sewer system with proceeds of issuance and sale of the City's Sewer Revenue Bond, Series 2014 (the "2014 Bond") pursuant to the Master Ordinance and Loan Agreement dated November 1, 2014 (the "Loan Agreement") between the City and the Idaho Bond Bank Authority (the "Bond Bank").

Section 203 (Authorization of 2014 Bond, Designation; Confirmation of Pledged Revenues) authorizes the 2014 Bond; provides the designation of the 2014 Bond, and security of payment thereof from Pledged Revenues.

Section 204 (Issue Date) provides that the issue date shall be the date of delivery of the 2014 Bond.

Section 205 (2014 Bond Details) provides that the 2014 Bond shall be issued in a single denomination in the form attached to the Supplemental Ordinance and shall bear interest and be payable pursuant to the Loan Agreement with the Bond Bank.

Section 206 (Authorization of Actions Preliminary to Sale of 2014 Bond) providing for negotiated sale of the 2014 Bond to the Bond Bank; authorizes publication of a notice pursuant to Section 57-215, Idaho Code; ratifies actions by City officials related to the Bond Bank preliminary official statement; and approves substantial forms of Loan Agreement and continuing disclosure agreement.

Section 207 (Sale of 2014 Bond, Delegation Authority) provides for delegation to Mayor or City Administrator, each a Delegated Officer, to approve the final terms of the 2014 Bond and for execution by the Delegated Officer of the Certificate as to Bond Pricing and Related Matters upon approval of the final terms.

Section 208 (Execution of 2014 Bond) provides for the manner of execution of the 2014 Bond.

Section 209 (Registration of 2014 Bond) provides that the Treasurer of the City shall act as Bond Registrar for the 2014 Bond.

Section 301 (Creation of Accounts and/or Subaccounts under Funds) creates and/or ratifies the following: 2014 Debt Service Account under Bond Fund for payment of debt service on the 2014 Bond; 2014 Project Account under the Project Fund for payment of the costs of the 2014 Project and costs of issuance of the 2014 Bond; Reserve Account under the Debt Service Reserve Account to secure payment of the 2014 Bond and Parity Bonds, as applicable; Rate Stabilization Account to provide additional funds, if funded, to maintain Rate Covenant.

Section 302 (Delivery of 2014 Bond; Application of Proceeds) authorizes delivery of the 2014 Bond to the Bond Bank and to receive payment therefor; provides for allocation and distribution of the 2014 Bond proceeds.

Section 401 (Idaho State Intercept) authorizes compliance with State of Idaho intercept procedures at Section 67-8727, Idaho Code, pursuant to the Loan Agreement.

Section 402 (Pledge of Revenues) provides for pledge of Pledged Revenues of the City to pay debt service on the 2014 Bond on parity with Parity Bonds together with Annual Expense Charges of the Bond Bank.

Section 403 (Tax Certificate) authorizes the City's Tax Certificate to comply with federal tax requirements.

Section 501 (Effect of Supplemental Ordinance) provides that the Master Ordinance is amended and supplemented as provided by the Supplemental Ordinance.

Section 502 (Ratification) ratifies, confirms and approves all proceedings, resolutions, and ordinances in connection with the sale and issuance of the 2014 Bond.

Section 503 (Severability) provides that other covenants and agreements in the Supplemental Ordinance are not affected if one is made invalid.

Section 504 (Conflict) repeals all resolutions, orders and regulations or parts thereof conflicting with the Supplemental Ordinance.

Section 505 (Captions) provides that table of contents and captions and headings are for convenience only.

Section 506 (Savings Clause) provides that except as amended by the Supplemental Ordinance, the Master Ordinance shall remain in full force and effect.

Section 507 (Effective Date) provides that the Supplemental Ordinance shall take effect from and after its passage and publication of this summary as required by law.

Exhibit A: Sets forth the substantial form of the 2014 Bond.

Exhibit B: Sets forth the substantial form of the Notice of Private Negotiated Bond Sale.

Exhibit C: Sets forth the substantial form of the Loan Agreement.

Exhibit D: Sets forth the substantial form of the Certificate as to Bond Pricing and Related Matters.

Exhibit E: Sets forth this summary for publication.

The full text of Supplemental Ordinance No. 1166 is available at the office of the City Clerk of the City, and will be provided to any citizen upon personal request during normal business hours.

Approved this 3rd day of November, 2014.

CITY OF HAILEY, BLAINE COUNTY,
IDAHO

Mayor

ATTEST:

City Clerk

CERTIFICATION OF COUNSEL

I, the undersigned, the legal advisor to the City of Hailey, Idaho, hereby certify that I have read the attached Summary of Supplemental Ordinance No. 1166 of the City, and that the

same is true and complete and provides adequate notice to the public of the contents of said ordinance.

Dated as of this 3rd day of November, 2014.

S.C. Danielle Quade
Hawley Troxell Ennis & Hawley LLP
Bond Counsel

CERTIFICATE OF THE CLERK

I DO HEREBY CERTIFY that I am the duly chosen, qualified and acting Clerk of the City of Hailey, Blaine County, Idaho (the "City"), and keeper of the records of the City Council (the "City Council"); and HEREBY CERTIFY:

1. That the attached Supplemental Ordinance is a true and correct copy of Supplemental Ordinance No. 1166 of the City (the "Supplemental Ordinance"), as finally passed at a regular meeting of the City Council held on the 3rd day of November, 2014, and duly recorded in my office.

2. That said meeting was duly convened and held in all respects in accordance with law, and to the extent required by law, due and proper notice of such meeting was given; that a quorum was present throughout the meeting and a legally sufficient number of members of the City Council voted in the proper manner for the passage of the Supplemental Ordinance; that all other requirements and proceedings incident to the proper passage of the Supplemental Ordinance have been duly fulfilled, carried out and otherwise observed, and that I am authorized to execute this certificate.

IN WITNESS WHEREOF, I have hereunto set my hand this 3rd day of November, 2014.

Clerk

LOAN AGREEMENT

Between

IDAHO BOND BANK AUTHORITY

And

CITY OF HAILEY, BLAINE COUNTY, IDAHO

Dated as of November 1, 2014

Relating to

Idaho Bond Bank Authority
Revenue Bonds
Series 2014C

Table of Contents

	Page
ARTICLE I DEFINITIONS	
Section 1.1 Definition of Terms	1
Section 1.2 Number and Gender.....	5
Section 1.3 Articles, Sections, Etc.....	5
ARTICLE II REPRESENTATIONS	
Section 2.1 Representations of the Municipality.....	5
Section 2.2 Representations of the Authority.....	6
ARTICLE III LOAN TO MUNICIPALITY; REPAYMENT PROVISIONS	
Section 3.1 Loan to Municipality	6
Section 3.2 Repayment and Payment of Other Amounts Payable.....	7
Section 3.3 Unconditional Obligation	7
Section 3.4 Assignment of Authority's Rights	8
Section 3.5 Amounts Remaining In Funds.....	8
Section 3.6 Timeliness of Payments; Consent to State Intercept; Repayment.....	8
ARTICLE IV SECURITY	
Section 4.1 Pledge of System Net Revenues.....	10
Section 4.2 Allocation of System Revenues.....	10
Section 4.3 Additional Parity Debt.....	11
Section 4.4 Reserve Fund	12
Section 4.5 Rate Stabilization Account.....	12
Section 4.6 Transfers from Rate Stabilization Account	13
ARTICLE V SPECIAL COVENANTS AND AGREEMENTS	
Section 5.1 Punctual Payment.....	13
Section 5.2 Legal Existence.....	13
Section 5.3 Against Encumbrances.....	13
Section 5.4 Against Sale Or Other Disposition Of The System	13
Section 5.5 Maintenance And Operation Of System.....	14
Section 5.6 Right of Access to the Project	14
Section 5.7 Tax Exempt Status Of Bonds	14
Section 5.8 Notices To Trustee And Authority	15
Section 5.9 Reporting	15
Section 5.10 Eminent Domain Proceeds.....	18
Section 5.11 Amounts Of Rates, Fees And Charges	18
Section 5.12 Enforcement Of And Performance Under Contracts.....	19
Section 5.13 Collection Of Charges, Fees And Rates	19
Section 5.14 No Free Service	20
Section 5.15 Payment of Claims.....	20
Section 5.16 Books of Record and Accounts; Financial Statements.....	20
Section 5.17 Payment of Taxes and Other Charges and Compliance With Governmental Regulations.....	20
Section 5.18 Maintenance of Insurance.....	21
Section 5.19 Delivery of Closing Documents.....	21
Section 5.20 Authority Fees.....	21

ARTICLE VI EVENTS OF DEFAULT AND REMEDIES		
Section 6.1	Events of Default	21
Section 6.2	Remedies on Default	22
Section 6.3	Agreement To Pay Attorneys' Fees and Expenses	23
Section 6.4	No Remedy Exclusive	23
Section 6.5	No Additional Waiver Implied By One Waiver	23
Section 6.6	No Cross Default.	23
ARTICLE VII PREPAYMENT		
Section 7.1	Redemption of Bonds With Prepayment Moneys	24
Section 7.2	Options To Prepay Installments	24
Section 7.3	Amount of Prepayment.....	24
Section 7.4	Notice of Prepayment	24
ARTICLE VIII DISCHARGE OF OBLIGATIONS		
Section 8.1	Discharge Of Obligations	25
ARTICLE IX NON-LIABILITY OF AUTHORITY; EXPENSES; INDEMNIFICATION		
Section 9.1	Non-Liability of Authority	25
Section 9.2	Liability of Municipality Limited To System Revenues and Other Funds.	26
Section 9.3	Indemnification.....	26
ARTICLE X MISCELLANEOUS		
Section 10.1	Notices	26
Section 10.2	Severability	27
Section 10.3	Execution of Counterparts	27
Section 10.4	Amendments, Changes and Modifications	27
Section 10.5	Governing Law	27
Section 10.6	Authorized Municipality Representative	27
Section 10.7	Term of The Loan Agreement	27
Section 10.8	Binding Effect.....	27
Section 10.9	Post Issuance Tax Compliance Procedures of the Authority	27
Signature Page		28
Schedule 1		29
EXHIBIT A	Description of the Project.....	30
EXHIBIT B	Repayment Installments and Repayment Installment Dates	31
EXHIBIT C	Municipality Closing Documents	32
EXHIBIT D	Fees Charged by Authority for Failure to Comply with Continuing Disclosure Requirements	33
EXHIBIT E	Post Issuance Tax Compliance Procedures.....	34

LOAN AGREEMENT
New Money

THIS LOAN AGREEMENT, dated as of November 1, 2014, by and between the CITY OF HAILEY, BLAINE COUNTY, IDAHO, a municipal corporation duly organized, existing and operating under the laws and Constitution of the State of Idaho and thereby a "Municipality" under the "Act" as defined below (the "Municipality"), and IDAHO BOND BANK AUTHORITY, an independent public body corporate and politic (the "Authority"),

WITNESSETH:

WHEREAS, pursuant to the Idaho Code, Title 50, Chapter 10, on May 20, 2014, the Municipality conducted an election to authorize the issuance of its revenue bonds, in an amount up to \$6,545,000, with approximately 73% of the electors voting in favor thereof for the purpose of funding improvements to its sewer treatment facility system as more fully described in Exhibit A hereto (the "Project");

WHEREAS, the Authority is an independent public body corporate and politic duly created and operating pursuant to Idaho Code, Title 67, Chapter 87 as amended or supplemented from time to time (the "Act");

WHEREAS, the Act authorizes and empowers the Authority to issue bonds for the purpose of purchasing municipal bonds, including loans undertaken by municipalities for any purpose authorized by law;

WHEREAS, the Authority intends to issue its Idaho Bond Bank Authority Revenue Bonds, Series 2014C (the "Bonds");

WHEREAS, pursuant to the Municipality's Sewer Bond Ordinance No. 1165 adopted November 3, 2014 (the "Master Ordinance"), as supplemented by Supplemental Ordinance No. 1166 adopted November 3, 2014 (the "Supplemental Ordinance," and collectively with the Master Ordinance, the "Bond Ordinance"), the Municipality authorized the issuance of its Sewer Revenue Bond, Series 2014 (the "Municipal Bond") and approved this Loan Agreement by and between the Municipality and the Authority (the "Loan Agreement"), in which the proceeds of the Loan (hereinafter defined) shall finance the construction of the Project; and

NOW, THEREFORE, in consideration of the premises and the respective representations and covenants herein contained, the parties hereto agree as follows:

ARTICLE 1 – DEFINITIONS

Section 1.1 Definition of Terms. Unless the context otherwise requires, the capitalized terms used in this Loan Agreement not otherwise defined herein shall have the meanings specified in Section 1.01 of the Master Trust Agreement, dated as of December 1, 2004 between the Authority and U.S. Bank National Association, as trustee (which has now been succeeded by

The Bank of New York Mellon Trust Company, N.A., as amended relating to the Bonds (the "Master Trust Agreement"), and all supplemental trust agreements including the Twenty-Fourth Supplemental Trust Agreement dated as of November 1, 2014 (the "Twenty-Fourth Supplemental Trust Agreement") by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), as previously supplemented and amended or as it may from time to time be supplemented or amended as provided therein with the Master Trust Agreement and all Supplemental Trust Agreements including the Twenty-Fourth Supplemental Trust Agreement referred to herein collectively as the "Trust Agreement."

"Annual Debt Service" means, for any Fiscal Year, the sum of (1) the interest accruing on all Parity Debt during such Fiscal Year calculated on the basis of a 360-day year consisting of twelve 30-day months, assuming that all Parity Debt is retired as scheduled, plus (2) the principal amount (including principal due as sinking fund installment payments) allocable to all Parity Debt in such Fiscal Year.

"Annual Expense Charges" means the annual charges for Trustee fees, continuing disclosure dissemination agent fees, audit fees, rebate calculation expenses or other expenses related to the Bonds or Loan and paid by the Authority which shall be reimbursed to the Authority by the Municipality as provided in Section 3.2(a) hereof upon receipt of invoices from the Authority or Trustee as well as any late fees or charges related to continuing disclosure or audit submission.

"Authority Fee" means the one-time fee payable by the Municipality to the Authority upon issuance and delivery of the Bonds in the amount set forth in Schedule 1 equal to 1/10 of one percent (.10%) of the total debt service to be paid on the Loan. The amount of any application fee previously paid by the Municipality to the Authority may be credited against the Authority Fee.

"Authorized Municipality Representative" means the Mayor, Administrator, Treasurer or Clerk, or any such officer's designee, or any other officer of the Municipality duly authorized by the Municipality.

"Bond Ordinance" means the Bond Ordinance as defined in the last WHEREAS Clause above.

"Certificate of the Municipality" means an instrument in writing signed by an Authorized Municipality Representative, such authorization to be evidenced by a certificate verifying the specimen signatures of such officers at the request of the Trustee.

"Consulting Engineer" means any qualified registered or licensed professional engineer practicing under the laws of the State of Idaho selected by the Municipality.

"Fiscal Year" means the fiscal year of the Municipality, beginning October 1 and ending September 30 each year.

“Generally Accepted Accounting Principles” means the uniform accounting and reporting procedures set forth in publications of the American Institute of Certified Public Accountants or its successor, or by any other generally accepted authority on such procedures, and includes, as applicable, the standards set forth by the Governmental Accounting Standards Board or its successor.

“Income Fund” means the fund by that name described in Section 4.2 hereof.

“Independent Certified Public Accountant” means any firm of certified public accountants appointed by the Municipality, which is independent of the Municipality and the Authority pursuant to the Statement on Auditing Standards No. 1 of the American Institute of Certified Public Accountants.

“Issue Date” means the date of issuance of the Municipal Bond.

“Loan” means the loan of proceeds of the Municipal Bond as described in Section 3.1 hereof.

“Maximum Annual Debt Service” means, as of any date of calculation, the largest Annual Debt Service during the period from the date of such calculation through the final maturity date of all Parity Debt.

“Municipal Bond” or “Municipal Bonds” means the revenue bond or other evidence of indebtedness issued and delivered by the Municipality to evidence the Loan as provided in Section 3.1 hereof.

“Municipality” means the City of Hailey, Blaine County, Idaho, a body politic and corporate of the State of Idaho and thereby a “Municipality” under the Act.

“Net Proceeds” means, when used with respect to any casualty insurance or condemnation award, the proceeds from such insurance or condemnation award remaining after payment of all expenses (including attorneys’ fees) incurred in the collection of such proceeds.

“Operation and Maintenance Costs” means all reasonable and necessary current expenses of the Municipality, paid or accruing, for operating, maintaining and repairing the System, including legal and overhead expenses of the Municipality directly related to the administration of the System, insurance premiums, audits, charges of depository banks and paying agents, professional services, salaries, administrative expenses, labor, and the cost of materials and supplies for current operation, but not including depreciation, legal liabilities not based on contract, the cost of improvements to the System, charges for accumulation of reserves, or payment of Parity Debt or Subordinate Obligations.

“Parity Debt” means the Repayment Installments, any Prior Obligations, and any Parity Obligations.

“Parity Obligation Payments” means the payments scheduled to be paid by the Municipality under and pursuant to the Parity Obligations, which payments are secured by a pledge of System Net Revenues on parity with the Repayment Installments as provided herein.

“Parity Obligations” means all obligations of the Municipality authorized and executed by the Municipality other than the Repayment Installments, including Prior Obligations, with Parity Obligation Payments which are secured by a pledge of the System Net Revenues on parity with the Repayment Installments as provided herein.

“Prior Obligations” means the obligations secured by the same revenue source that secures the Municipal Bond, if any, specified in Schedule 1 attached hereto.

“Project” means the financing of the design and construction of improvements to the Municipality’s System as described in the first WHEREAS clause above and as further described in Exhibit A hereto.

“Rate Stabilization Account” means the Rate Stabilization Account established pursuant to Section 4.5 hereof.

“Repayment Amount” means the amount specified in Schedule 1 attached hereto.

“Repayment Installment” means any amount that the Municipality is required to pay directly to the Trustee pursuant to Section 3.2(a) of this Loan Agreement, as a repayment of the loan made to the Municipality under the Loan Agreement, which amount is determined in accordance with Section 4.2(a) thereof.

“Repayment Installment Date” means the dates corresponding to the Repayment Installments, as set forth in Exhibit B, however, payments must be transmitted to the Trustee at least fifteen (15) days prior to the Repayment Installment Dates on Exhibit B.

“Reserve Fund” means the common reserve fund securing Parity Debt of the Municipality in the amount of the Reserve Requirement and to be funded as provided in Section 4.4 hereof.

“Reserve Requirement” shall mean the monies to be deposited and held by the Municipality in the Reserve Fund to secure payment of debt service on Parity Debt which shall be in an amount equal to the lesser of (i) 10% of the outstanding principal of the Parity Debt, (ii) the maximum annual principal and interest on the Parity Debt, or (iii) 125% of average annual principal and interest on the Parity Debt.

“Revenue Fund” means the fund so designated and established pursuant to the Trust Agreement and held by the Trustee.

“Sewer Revenue Fund” means the Municipality’s Sewer Revenue Fund, established by the Bond Ordinance.

“Subordinate Obligations” means the obligations of the Municipality that are subordinate in payment to the Repayment Installments.

“System” means all of the Municipality’s sewer treatment facility system, and related sewer facilities and properties now owned or hereafter acquired, whether situated within or without the Municipality’s boundaries.

“System Net Revenues” means the remaining System Revenues after deducting Operation and Maintenance Costs.

“System Revenues” means all gross income and revenue received or receivable by the Municipality from the ownership or operation of the System, determined in accordance with Generally Accepted Accounting Principles, excluding grants, hookup fees and other non recurring revenue, but including without limitation, transfers from the Rate Stabilization Account and including all fees (excluding connection fees), rates, charges and all amounts paid under any contracts received by or owed to the Municipality in connection with the operation of the System and all proceeds of insurance relating to the System and investment income allocable to the System and all other income and revenue howsoever derived by the Municipality from the ownership, or operation of the System or arising from the System.

Section 1.2 Number and Gender. The singular form of any word used herein, including the terms defined in Section 1.01 of the Trust Agreement, shall include the plural, and vice versa. The use herein of a word of any gender shall include all genders.

Section 1.3 Articles, Sections, Etc. Unless otherwise specified, references to Articles, Sections and other subdivisions of this Loan Agreement are to the designated Articles, Sections and other subdivisions of this Loan Agreement as originally executed. The words “hereof,” “herein,” “hereunder” and words of similar import refer to this Loan Agreement as a whole. The headings or titles of the several articles and sections, and the table of contents appended to copies hereof, shall be solely for convenience of reference and shall not affect the meaning, construction or effect of the provisions hereof.

ARTICLE II – REPRESENTATIONS

Section 2.1 Representations of the Municipality. The Municipality makes the following representations as the basis for its undertakings herein contained:

- (a) The Municipality is a municipal corporation in the State of Idaho. Under the provisions the Act, the Municipality has the power to enter into the transactions contemplated by this Loan Agreement and to carry out its obligations hereunder. By proper action, the Municipality has authorized the Municipal Bond evidencing its obligations under this Loan Agreement in accordance with Title 50, Chapter 10 and Section 67-8722 of the Idaho Code, as amended. By proper action, the Municipality has been duly authorized to execute, deliver and duly perform this Loan Agreement.

(b) The Municipality is not in default under any of the provisions of the laws of the State of Idaho which default would affect its existence or its powers referred to in subsection (a) of this Section 2.1.

(c) The Municipality has found and determined and hereby finds and determines that all requirements of the Act with respect to the execution of this Loan Agreement have been complied with and that financing the Project by entering into this Loan Agreement will be in furtherance of the purposes of the Act.

(d) The Project consists and will consist of improvements to the Municipality's System as described in Exhibit A hereto and the Municipality shall make no changes to any portion of the Project or to the operation thereof which would impair the exemption from gross income of the interest on the Bonds or the Municipal Bond for federal income tax purposes. In particular, the Municipality shall comply with all requirements of the Federal Exemption Tax Certificate, dated the Issue Date (the "Tax Certificate"), which is hereby incorporated by reference herein.

Section 2.2 Representations of the Authority. The Authority makes the following representations as the basis for its undertakings herein contained:

(a) The Authority is an independent public body corporate and politic duly formed under the laws of the State of Idaho and has the power to enter into and has duly authorized the execution and delivery of the Trust Agreement, this Loan Agreement and all other documents contemplated hereby to be executed by the Authority.

(b) The execution and delivery of the Bonds, this Loan Agreement, and the Trust Agreement and the consummation of the transactions contemplated hereby and thereby do not conflict with or constitute a breach of or default under the Act or, to the best knowledge of the Authority, under the terms and conditions of any agreement or commitment to which the Authority is a party or by which the Issuer is bound.

(c) The Authority will issue, execute and deliver the Bonds upon the terms and conditions set forth in the Trust Agreement and will use a portion of proceeds of the issuance of the Bonds for the Loan to finance the Project in accordance with this Loan Agreement.

ARTICLE III - LOAN TO MUNICIPALITY; REPAYMENT PROVISIONS

Section 3.1 Loan to Municipality; The Authority covenants and agrees, upon the terms and conditions in this Loan Agreement, to make a Loan of the amount specified in Schedule 1 attached hereto to the Municipality for the purpose of financing the Project. The Loan is based on the purchase price of the Municipal Bond at the par amount thereof plus a premium or less a discount as described in Schedule 1 hereto. Said Loan shall be disbursed as described in Schedule 1 hereto. Pursuant to said covenant and agreement, the Authority will issue the Bonds

upon the same terms and conditions contained in this Loan Agreement and the Trust Agreement and will cause the Bond proceeds to be applied as provided in Article III thereof. The Municipality shall issue and sell its Municipal Bond to the Authority as evidence of its Loan obligation hereunder and the payments due on the Municipal Bond shall equal the Repayment Installments hereunder.

Section 3.2 Repayment and Payment of Other Amounts Payable.

(a) The Municipality covenants and agrees to pay to the Trustee the Repayment Installments together with the Annual Expense Charges and all other amounts then due hereunder on the Loan to the Municipality pursuant to Section 3.1 hereof, at least fifteen (15) days prior to the Repayment Installment Dates as set forth in Exhibit B hereto. The Trustee shall transmit the Annual Expense Charges to the Authority.

Any amount held by the Trustee in the Revenue Fund on the Municipality's behalf on any Repayment Installment Date hereunder shall be credited against the Repayment Installment due on such date to the extent available for such purpose; and provided further that, subject to the provisions of this paragraph, if at any time the amounts held by the Trustee in the Revenue Fund on the Municipality's behalf are sufficient to pay all of the Repayment Installments, the Municipality shall be relieved of any obligation to make any further payments under the provisions of this Section. Notwithstanding the foregoing, if on any date the amount held by the Trustee in the Revenue Fund on the Municipality's behalf is insufficient to make any required Repayment Installment on any Repayment Installment Date, the Municipality shall forthwith pay such deficiency as a Repayment Installment hereunder.

(b) Upon written request of the Trustee, the Municipality shall pay any Repayment Installment directly to the Trustee.

Section 3.3 Unconditional Obligation. The obligations of the Municipality to make the payments required by Section 3.2 hereof and to perform and observe the other agreements on its part contained herein shall be absolute and unconditional, irrespective of any defense or any rights of set-off, recoupment or counterclaim it might otherwise have against the Authority, and during the term of this Loan Agreement, the Municipality shall pay absolutely net the payments to be made on account of the Loan as prescribed in Section 3.2 and all other payments required hereunder, free of any deductions and without abatement, diminution or set-off; provided, that the Municipality's obligation to make payments under this Loan Agreement shall be limited to the extent of System Net Revenues to make the payments required under this Agreement and the Municipal Bond, but is not a general obligation of the Municipality provided that the State Intercept under Section 3.6 hereof shall apply. Until such time as the Repayment Installments shall have been paid in full (or provision for the payment thereof shall have been made pursuant to Article VIII of this Loan Agreement), the Municipality (i) will not suspend or discontinue any payments provided for in Section 3.2 hereof; (ii) will perform and observe all of its other covenants contained in this Loan Agreement; and (iii) will not terminate this Loan Agreement for any cause, including, without limitation, the occurrence of any act or circumstances that may

constitute failure of consideration, destruction of or damage to the Project, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of Idaho or any political subdivision of either of these, or any failure of the Authority or the Trustee to perform and observe any covenant, whether express or implied, or any duty, liability or obligation arising out of or connected with this Loan Agreement or the Trust Agreement, except to the extent permitted by this Loan Agreement.

Section 3.4 Assignment of Authority's Rights. As security for the payment of the Bonds, the Authority will assign to the Trustee the Authority's rights, but not its obligations, under this Loan Agreement, including the right to receive payments hereunder (except (i) the rights of the Authority to receive notices under this Loan Agreement, (ii) the right of the Authority to receive certain payments, if any, with respect to fees, expenses and indemnification and certain other purposes under this Loan Agreement, and (iii) the right of the Authority to give approvals or consents pursuant to this Loan Agreement) and the Authority hereby directs the Municipality to make the payments required hereunder (except such payments for fees, expenses and indemnification) directly to the Trustee. The Municipality hereby assents to such assignment and agrees to pay the Repayment Installments directly to the Trustee (subject to the provisions of Section 3.2(b)) without defense or set-off by reason of any dispute between the Municipality and the Authority or the Trustee.

Section 3.5. Amounts Remaining in Funds. It is agreed by the parties hereto that after payment in full of (i) the Repayment Installments, or after provision for such payment shall have been made as provided in Article XIII, (ii) the fees and expenses of the Authority in accordance with this Loan Agreement, (iii) the fees, charges and expenses of the Trustee, the Registrar and Paying Agent in accordance with the Trust Agreement and this Loan Agreement and (iv) all other amounts required to be paid under this Loan Agreement and the Trust Agreement, any amounts remaining in any fund held by the Trustee under the Trust Agreement shall belong, subject to the requirements of Section 7.03 of the Trust Agreement, to the Authority and be paid to the Authority by the Trustee, provided that any earnings on payments by the Municipality to the Trustee under Section 3.2(a) prior to the Repayment Installment Dates shall be deducted from said remaining amounts and credited to the Municipality.

Section 3.6 Timeliness Of Payments; Consent to State Intercept; Repayment.

(a) The Municipality understands that the State intercept and repayment procedures contained in and required by Section 67-8727, Idaho Code, as amended, and as set forth herein operate as a matter of law with respect to the Loan covered by this Loan Agreement without the need for consent thereto by the Municipality. The Municipality also understands that said intercept procedures will provide funds to pay the Authority Bonds (not the Loan obligations).

(b) If the Municipality is unable to transfer all of its Repayment Installment to the Trustee at least 15 days before the Repayment Installment Date, the Municipality shall immediately notify the Trustee, the Authority and the State Treasurer by: (i) telephone; (ii) a writing sent by facsimile transmission; and (iii) a writing sent by first-class United

States mail. If sufficient funds are not transferred to the Trustee for the Bonds of the Authority that are secured by this Loan Agreement at least ten (10) days before the scheduled debt service payment date of the Bonds, the Trustee shall transfer any available funds pledged to secure payment of the Bonds in sufficient amounts to make up any shortfall in the amount necessary to pay debt service on the Bonds on the scheduled payment date and deposit such amount in the debt service payment fund for those Bonds.

(c) If, as a result of the failure of the Municipality to make Repayment Installments in a timely manner, the Trustee shall transfer funds pursuant to paragraph (b) of this section to pay Repayment Installments on the Municipal Bond or if there are not sufficient funds available pursuant to paragraph (b) of this section to make up for any shortfall in the amount necessary to pay Repayment Installments on the Municipal Bond, at least ten (10) days before the scheduled Repayment Installment Date of the Municipal Bond, the Trustee shall notify the Authority and the State Treasurer by: (i) telephone; (ii) a writing sent by facsimile transmission; and (iii) a writing sent by first-class United States mail.

(d) To the extent provided and required by Section 67-8727, Idaho Code, as amended, and upon the notice provided in subsection (c) of this section, the State Treasurer shall (i) immediately intercept to the extent permitted by law any payments available from: (A) the receipts of any payment of property taxes; or (B) sales tax moneys that would be distributed pursuant to section 63-3638, Idaho Code; or (C) liquor tax moneys that would be distributed pursuant to Section 23-404, Idaho Code, as amended; or (D) any other source of operating moneys provided by the State to the Municipality that would otherwise be paid to the Municipality by the State.

(e) If the State has made all or part of a Repayment Installment on behalf of the Municipality from moneys representing sales tax receipts transferred from the State general fund pursuant to Section 67-8716, Idaho Code, the Municipality shall: (a) reimburse all moneys drawn by the State Treasurer on its behalf; (b) pay interest to the State on all moneys paid by the State from the date the moneys are drawn to the date they are repaid at a rate not less than the average prime rate for national money center banks plus five percent (5%); and (c) pay all penalties required by the Act.

(f) The State Treasurer shall establish the reimbursement interest rate after considering the circumstances of any prior draws by the Municipality on the State, market interest and penalty rates, and the cost of funds, if any, that were required to be borrowed by the State to make Repayment Installments.

(g) The State Treasurer may, after considering the circumstances giving rise to the failure of the Municipality to make its Repayment Installments in a timely manner, impose on the Municipality a penalty of not more than five percent (5%) of the amount paid by the State for each instance in which a payment by the State is made.

(h) (i) If the State Treasurer determines that amounts obtained under this section will not reimburse the State in full within one (1) year from the State's payment

of the Municipality's scheduled Repayment Installments, the State Treasurer shall, subject to clause (ii) hereof, pursue any legal action, including mandamus, against the Municipality to compel it to take any action required by the Act, including:

(1) To the extent permitted by law provide System Net Revenues or other legally available funds to pay Repayment Installments when due; and

(2) Meet its repayment obligations to the State.

(ii) In pursuing its rights under paragraph (i) of this subsection (h), the State shall have the same substantive and procedural rights as would a holder of this Loan Agreement.

(iii) The attorney general shall assist the State Treasurer in these duties.

(iv) The Municipality shall pay the attorney's fees, expenses and costs of the State Treasurer and the State attorney general.

ARTICLE IV – SECURITY

Section 4.1 Pledge of System Net Revenues. All System Net Revenues needed to make the payments required under this Loan Agreement and the Municipal Bond are hereby irrevocably pledged to the payment of the Repayment Installments as provided herein and the System Net Revenues and such other funds shall not be used for any other purpose while any of the Repayment Installments remain unpaid; *provided* that (i) any Parity Obligations shall be paid on parity with the Repayment Installments, (ii) out of the System Net Revenues and such other funds there may be apportioned such sums for such purposes as are expressly permitted herein. This pledge, together with the pledge created by all other Parity Debt, shall constitute a first lien on System Net Revenues and, subject to application of amounts on deposit therein as permitted herein, the Income Fund and other funds and accounts created hereunder for the payment of the Repayment Installments and all other Parity Debt in accordance with the terms hereof and of the Trust Agreement.

Section 4.2 Allocation of System Revenues. In order to carry out and effectuate the pledge and lien contained herein, the Municipality agrees and covenants that all System Revenues shall be received by the Municipality in trust hereunder and shall be deposited when and as received in the Sewer Revenue Fund," a special fund hereby designated as the "Income Fund," which fund is established or continued under the Bond Ordinance and which fund the Municipality agrees and covenants to maintain and to hold separate and apart from other funds so long as any Repayment Installments remain unpaid. To the extent the Municipality has an existing fund which satisfies the foregoing requirements, then such shall be deemed to be the "Income Fund" and the Municipality shall not be required to create a new fund. The Municipality may maintain separate accounts within the Income Fund. The amounts in the Income Fund shall be invested in investments permitted by

State law. Moneys in the Income Fund shall be used and applied by the Municipality as provided in this Loan Agreement.

The Municipality shall, from the moneys in the Income Fund, pay all Operation and Maintenance Costs (including amounts reasonably required to be set aside in contingency reserves for Operation and Maintenance Costs, the payment of which is not then immediately required) as such Operation and Maintenance Costs become due and payable. Thereafter, all remaining moneys in the Income Fund shall be set aside by the Municipality at the following times for the transfer to the following respective special funds in the following order of priority; and all moneys in each of such funds shall be held in trust and shall be applied, used and withdrawn only for the purposes set forth in this Section.

(a) Repayment Installments. Not later than fifteen (15) days prior to each Repayment Installment Date, the Municipality shall, from the moneys in the Income Fund, transfer to the Trustee the Repayment Installment due and payable on that Repayment Installment Date. The Municipality shall also, from the moneys in the Income Fund, transfer to the applicable trustee, if any, for deposit in the respective payment fund, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, any other Parity Obligation Payments in accordance with the provisions of any Parity Obligation.

(b) Surplus. Moneys on deposit in the Income Fund not necessary to make any of the payments required above, may be expended by the Municipality at any time for any purpose permitted by law, including but not limited to payments with respect to Subordinate Obligations.

Section 4.3 Additional Parity Debt. The Municipality may at any time enter into any Parity Debt; *provided:*

(a) The Municipality shall be in compliance with all agreements, conditions, covenants and terms contained herein, and a Certificate of the Municipality to that effect shall have been filed with the Trustee;

(b) The Parity Debt shall have been duly authorized pursuant to all applicable laws;

(c) The most recent available audit of the Municipality shows that the System Net Revenues for any twelve (12) consecutive month period during the twenty four (24) months immediately preceding the date of the resolution authorizing the Parity Debt shall have been sufficient to pay an amount representing 125% of Maximum Annual Debt Service for all Parity Debt including the proposed obligations.

(d) As an alternative to the audit report requirement in 4.3(c), the Municipality may certify as to estimated or projected revenues without engineer or accountant verification if its certification shows that the System Net Revenues for the remainder of the projected life of the Parity Debt will be at least equal to 150% of the Maximum Annual Debt

Service, or the Municipality may utilize a report of a Consulting Engineer or certified public accountant acceptable to the Authority that shows that the System Net Revenues for the remainder of the projected life of the Parity Debt will be at least equal to 125% of the Maximum Annual Debt Service.

(e) The Reserve Fund shall be funded in an amount that will cause the Reserve Requirement to be maintained upon issuance of the Parity Debt.

Nothing contained in this Section shall limit the issuance of any additional obligations of the Municipality payable from the System Net Revenues and secured by a lien and charge on the System Net Revenues if, after the issuance and delivery of such additional obligations, none of the Repayment Installments shall be unpaid. Furthermore, nothing contained in this Section shall limit the issuance of any Parity Debt for the purpose of refunding Outstanding Parity Debt or for any Subordinate Obligations.

Section 4.4 Reserve Fund Deposit There is hereby ratified and continued a Reserve Fund held by the Municipality funded from reserve funds for the Prior Obligations and proceeds of the Municipal Bond in an amount equal to the Reserve Requirement to be maintained as a debt service reserve fund for Parity Debt. Such Reserve Fund shall secure Parity Debt of the Municipality and shall be drawn upon if needed to make the Repayment Installments hereunder. The Municipality shall notify the Trustee of any drawing on the Reserve Fund within ten (10) days of the date of such drawing. Provided further, in the event that a drawing on the said Reserve Fund in order to make the Repayment Installments by the Municipality on the Loan results in a balance in such fund lower than the Reserve Requirement, the Municipality shall replenish said account to the Reserve Requirement from System Net Revenues as soon as possible, but not later than one (1) year from the date of the said drawing.

Section 4.5 Rate Stabilization Account. The Municipality hereby ratifies and continues its Rate Stabilization Account established upon issuance of the Prior Obligations. Monies in the Rate Stabilization Account may be transferred as determined from time to time by the Municipality. The Municipality may transfer funds into the Rate Stabilization Account from the Income Fund (Sewer Revenue Fund) or any other legally available source. The Municipality may transfer funds into the Rate Stabilization Account or withdraw funds from the Rate Stabilization Account at any time without limitation subject to the following provisions.

(a) Money in the Rate Stabilization Account may be withdrawn at any time and used for any purpose for which System Revenues may be used. Amounts withdrawn from the Rate Stabilization Account shall increase System Revenues for the period for which they are withdrawn, and amounts deposited in the Rate Stabilization Account shall reduce System Revenues for the period for which they are deposited. Credits from the Rate Stabilization Account may be posted in accordance with governmental accounting practices and procedures. Credits to or from the Rate Stabilization Account may relate to a prior Fiscal Year consistent with governmental accounting practices and procedures provided that such credits occur within the first quarter following the prior Fiscal Year. Earnings on the Rate Stabilization Account shall be credited to the Income Fund (the

Sewer Revenue Fund) and shall be included in the definition of System Revenues for purposes of calculating debt service coverage.

(b) Unless otherwise excluded, funds withdrawn from the Rate Stabilization Account shall be included as System Net Revenues for all rate requirement purposes under Section 5.11 hereof.

Section 4.6. Transfers from Rate Stabilization Account. The Municipality may transfer funds from the Rate Stabilization Account to satisfy the rate requirements in Section 5.11 hereof. If the Municipality transfers funds from the Rate Stabilization Account during the current Fiscal Year or within the first quarter of the following Fiscal Year and designates that such transfer shall relate to the immediately preceding Fiscal Year, the Municipality covenants for the benefit of the Authority and its bondholders that going forward it will, as needed, charge rates and fees in connection with operation of the System which, when combined with other System Revenues, are adequate to generate System Net Revenues (exclusive of transfers from the Rate Stabilization Account) in the current Fiscal Year at least equal to 1.25 times the Annual Debt Service due in that Fiscal Year. If the System Net Revenues fail to meet this level, the Municipality will promptly increase its rates and fees or reduce expenses to a level so that System Net Revenues (exclusive of transfers from the Rate Stabilization Account) are projected to meet the required level. The Municipality will demonstrate its compliance with the provisions of this Section 4.6 by providing an officer's certificate to the Authority and the Trustee, if any, at the time of delivery of the Municipality's year-end audit stating that the Municipality is not out of compliance with Section 5.11. This officer's certificate will demonstrate the Municipality's compliance with this covenant, or the methods by which the Municipality intends to achieve compliance with this covenant. For the avoidance of doubt, unless the Trustee receives a written notification from the Municipality pursuant to Section 5.11(c) hereof, the Trustee shall not be deemed to have knowledge of any default under this Section 4.6 or Section 5.11 hereof.

ARTICLE V - SPECIAL COVENANTS AND AGREEMENTS

Section 5.1 Punctual Payment. The Municipality will punctually pay all Repayment Installments in strict conformity with the terms hereof and will faithfully satisfy, observe and perform all agreements, conditions, covenants and terms hereof.

Section 5.2 Legal Existence. The Municipality will use all means legally available to maintain its existence.

Section 5.3 Against Encumbrances. The Municipality will not mortgage or otherwise encumber, pledge or place any charge upon any of the System Net Revenues except as provided herein, and will not issue any obligations secured by System Net Revenues senior to the Parity Debt; *provided*, that the Municipality may at any time issue any Subordinate Obligations.

Section 5.4 Against Sale or Other Disposition of the System. The Municipality will not sell or otherwise dispose of the System or any part thereof essential to the proper operation of the System or to the maintenance of the System Net Revenues, unless the Repayment Installments

have been fully paid or provision has been made therefor in accordance with Article VIII hereof. The Municipality will not enter into any lease or agreement which impairs the operation of the System or any part thereof necessary to secure adequate System Net Revenues for the payment of the Repayment Installments, or which would otherwise impair the rights of the Owners with respect to the System Net Revenues or the operation of the System.

Section 5.5 Maintenance and Operation of System. The Municipality agrees that as long as it owns the System it will (i) maintain, or cause to be maintained, the System in as reasonably safe condition as its operations shall permit and (ii) maintain, or cause to be maintained, the System in good repair and in good operating condition, ordinary wear and tear excepted, making from time to time all necessary repairs thereto and renewals and replacements thereof.

Section 5.6 Right of Access to the System. The Municipality agrees that during the term of this Loan Agreement, the Authority, the Trustee and the duly authorized agents of either of them shall have the right at all reasonable times during normal business hours to enter upon the site of the System to examine and inspect such System; provided, however, that this right is subject to federal and State of Idaho laws and regulations applicable to such site. The rights of access hereby reserved to the Authority and the Trustee may be exercised only after such agent shall have executed a release of liability (which release shall not limit any of the Municipality's obligations hereunder) and secrecy agreements if requested by the Municipality in the form then currently used by the Municipality, and if the Trustee is the signatory, as agreed to by the Trustee, and nothing contained in this Section or in any other provision of this Loan Agreement shall be construed to entitle the Authority or the Trustee to any information or inspection involving the confidential knowledge of the Municipality.

Section 5.7 Tax Exempt Status of Bonds.

(a) It is the intention of the parties hereto that interest on the Bonds, shall be and remain excluded from gross income for federal income tax purposes. To that end, the covenants and agreements of the Authority and the Municipality in this Section and in the Tax Certificate are for the benefit of the Trustee and each and every person who at any time will be a holder of the Bonds. Without limiting the generality of the foregoing, the Municipality and the Authority agree that there shall be paid by the Municipality from time to time all rebate with respect to the Municipal Bond under Section 148 of the Code and the "Municipality's Share" of all amounts required to be rebated to the United States pursuant to the rebate requirement with respect to the Bonds (the "Rebate Requirement") under Section 148 of the Code and the Tax Certificate. The "Municipality's Share" means the amount of the Rebate Requirement relating to the Bonds, determined as specified in the Tax Certificate, including (i) treating as the yield on the Municipal Bond the yield on the Authority's Series 2014C Bonds allocated to the Municipal Bond and (ii) treating any amounts held by the Authority and allocable to the Municipal Bond as proceeds of the Municipal Bond. This covenant shall survive payment in full or defeasance of the Bonds and the Municipal Bond. The Municipality specifically covenants to pay or cause to be paid for and on behalf of the Authority to the United States at the times and in the amounts determined under Section 7.03 of the Trust

Agreement the Municipality's share of the Rebate Requirement as described in the Tax Certificate and the Trust Agreement. The Authority shall not be liable to make any such payment except from funds provided by the Municipality for such purpose.

(b) The Authority covenants and agrees that it has not taken and will not take any action which results in interest to be paid on the Bonds being included in gross income of the holders of the Bonds for federal income tax purposes, and the Municipality covenants and agrees that it has not taken or permitted to be taken and will not take or permit to be taken any action which will cause the interest on the Bonds to become includable in gross income for federal income tax purposes. The Municipality acknowledges having read Section 7.03 of the Trust Agreement and agrees to perform all duties imposed on it by such Section, by this Section and by the Tax Certificate. Insofar as Section 7.03 of the Trust Agreement and the Tax Certificate impose duties and responsibilities on the Authority or the Municipality, they are specifically incorporated herein by reference.

(c) Notwithstanding any provision of this Section 5.7 or Section 7.03 of the Trust Agreement, if the Municipality shall provide to the Authority and the Trustee an Opinion of Bond Counsel to the effect that any specified action required under this Section 5.7 and Section 7.03 of the Trust Agreement is no longer required or that some further or different action is required to maintain the exclusion from federal income tax of interest on the Bonds or Municipal Bonds, the Municipality, the Trustee and the Authority may conclusively rely on such opinion in complying with the requirements of this Section, and the covenants set forth in this Section 5.7 shall be deemed to be modified to that extent.

(d) The Municipality agrees to comply with the Authority's Post Issuance Tax Compliance Procedures, the current form of which is attached hereto as Exhibit E.

Section 5.8 Notices to Trustee and Authority. The Municipality hereby agrees to provide the Trustee and the Authority with notice of any event of which it has knowledge which, with the passage of time or the giving of notice, would be an Event of Default, such notice to include a description of the nature of such event and what steps are being taken to remedy such Event of Default.

Section 5.9 Reporting. The Municipality hereby covenants and agrees to provide to the Authority an Annual Surveillance Response as described in (a) and (b) below.

(a) Provision of Annual Surveillance Response.

(i) The Municipality shall, not later than the return deadline set forth in the annual surveillance letter commencing with the annual surveillance letter ("Annual Surveillance Letter") for the 2015 Fiscal Year and all subsequent Fiscal Years, provide to the Authority responses to an annual surveillance letter regarding the status of the Municipality's financial condition and obligations under this Loan Agreement (the "Annual Surveillance Response"). The Annual Surveillance Response must be submitted in electronic format, accompanied by

such identifying information as is prescribed by the Authority, and may include by reference other information as provided in the Loan Agreement. If the Municipality's fiscal year changes, it shall give notice of such change to the Authority.

(ii) Failure to provide the Annual Surveillance Response to the Authority by the date set forth in the Annual Surveillance Letter may subject the Municipality to late fees in the amount as listed on Exhibit D and payment of any expenses of the Trustee or the Authority in enforcing this provision. If the Municipality has prior loans with the Authority, then those loans shall be subject to the same penalty provisions.

(iii) Authority may request any financial statements from the Borrower in writing at any time and Borrower shall provide the requested financial statements to the Authority within 15 days of receipt of the written request.

(b) Reporting of Significant Events.

(i) Pursuant to the provisions of this Section 5.9, the Municipality shall give or cause to be given, notice to the Authority of the occurrence of any of the following events (the "Listed Events") with respect to the Bonds in a timely manner not more than ten (10) Business Days after the event:

- (1) Principal and interest payment delinquencies.
- (2) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (3) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (4) Substitution of credit or liquidity providers, or their failure to perform;
- (5) Adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds;
- (6) Defeasances;
- (7) Tender offers;
- (8) Bankruptcy, insolvency, receivership or similar proceedings;

(9) Rating changes;

(ii) Pursuant to the provisions of this Section 5, the Municipality shall give or cause to be given, notice to the Authority of the occurrence of any of the following Events with respect to the Bonds in a timely manner not more than ten (10) Business Days after the event, if material:

(1) Mergers, consolidations, acquisitions, the sale of all or substantially all of the assets of the obligated persons or their termination.

(2) Appointment of a successor or additional trustee or the change of the name of trustee;

(3) Non-payment related defaults;

(4) Modifications to the rights of the owners of the Bonds;

(5) Bond calls;

(6) Release, substitution or sale of property securing repayment of the Bonds.

(c) These provisions shall terminate upon the legal defeasance or discharge of this Loan Agreement in accordance with Section 8.1. If such termination occurs prior to the final maturity of the Municipal Bond, the Municipality shall give notice of such termination in the same manner as for a Listed Event under Section 5.9(b).

(d) Additional Information. Nothing in this Section 5.9 shall be deemed to prevent the Municipality from disseminating any other information, using the means of dissemination set forth in this Section 5.9 or any other means of communication, or including any other information in any Annual Surveillance Response or notice of occurrence of a Listed Event, in addition to that which is required by this Section 5.9. If the Municipality chooses to include any information in any Annual Surveillance Response or notice of occurrence of a Listed Event in addition to that which is specifically required by this Section 5.9, the Municipality shall have no obligation under this Section 5.9 to update such information or include it in any future Annual Surveillance Response or notice of occurrence of a Listed Event.

(e) Notices. Any notices or communications to or among any of the parties to this Section 5.9 may be given at their addresses as set forth in the Trust Agreement and this Loan Agreement.

(f) If as a result of a change in circumstances, the Municipality becomes an "obligated person" as defined in the Continuing Disclosure Policy Concerning Municipal

Securities adopted by the Authority, the Municipality agrees to amend this Agreement to provide for a continuing disclosure undertaking.

(g) The entering into Section 5.9 of this Loan Agreement shall not in any way waive or limit the responsibilities of the Municipality with respect to any reporting or disclosure provisions of any prior loan agreements entered into between the Authority and the Municipality including without limitation the filing of continuing disclosure reports with the Municipal Securities Rulemaking Board.

(h) Beneficiaries. This Section 5.9 shall inure solely to the benefit of the Municipality and the Authority and shall create no rights in any other person or entity.

Section 5.10 Eminent Domain Proceeds. If all or any part of the System shall be taken by eminent domain proceedings, the Net Proceeds realized by the Municipality therefrom shall be deposited by the Municipality with the Trustee in a special fund which the Trustee shall establish as needed in trust and applied by the Municipality to the cost of acquiring and constructing additions, betterments, extensions or improvements to the System if (A) the Municipality first secures and files with the Trustee a Certificate of the Municipality showing (i) the loss in annual System Revenues, if any, suffered, or to be suffered, by the Municipality by reason of such eminent domain proceedings, (ii) a general description of the additions, betterments, extensions or improvements to the System then proposed to be acquired and constructed by the Municipality from such proceeds, and (iii) an estimate of the additional System Revenues to be derived from such additions, betterments, extensions or improvements; and (B) the Trustee has been furnished a Certificate of the Municipality, certifying that such additional System Revenues will sufficiently offset on a timely basis the loss of System Revenues resulting from such eminent domain proceedings so that the ability of the Municipality to pay Repayment Installments when due will not be substantially impaired, and such Certificate of the Municipality shall be final and conclusive, and any balance of such Net Proceeds not required by the Municipality for such purpose shall be deposited in the Income Fund and applied as provided in Section 4.2 hereof, *provided*, that if the foregoing conditions are not met, then such Net Proceeds shall be deposited with the Trustee and applied to make Repayment Installments as they come due and Parity Obligation Payments as they shall become due; *provided further* that the foregoing procedures for the application of Net Proceeds shall be subject to any similar provisions for Parity Debt on a pro rata basis.

If such eminent domain proceedings have had no effect, or at most an immaterial effect, upon the System Revenues and the security of the Repayment Installments, and a Certificate of the Municipality to such effect has been filed with the Trustee, then the Municipality shall forthwith deposit such Net Proceeds in the Income Fund, to be applied as provided in Section 4.2 hereof.

Section 5.11 Amounts of Rates, Fees and Charges.

(a) The Municipality will, at all times while any of the Repayment Installments remain unpaid, fix, prescribe and collect rates, fees and charges and manage the operation

of the System for each Fiscal Year so as to yield System Revenues at least sufficient, after making reasonable allowances for contingencies and errors in the estimates, to pay the following amounts during such Fiscal Year:

- (i) All current Operation and Maintenance Costs.
 - (ii) The Repayment Installments and the payments for the other Parity Debt and the payment of the Subordinate Obligations as they become due and payable.
 - (iii) All payments required for compliance with the terms hereof.
 - (iv) All payments to meet any other obligations of the Municipality which are charges, liens or encumbrances upon, or payable from, the System Net Revenues.
- (b) In addition to the requirements of the foregoing subsection (a) of this Section, the Municipality will, at all times while any Repayment Installments remain unpaid, to the maximum extent permitted by law, fix, prescribe and collect rates, fees and charges and manage the operation of the System for each Fiscal Year, plus any credits from the Rate Stabilization Account in accordance with Sections 4.5 and 4.6 hereof, so as to yield System Net Revenues during such Fiscal Year equal to at least 125% of the Annual Debt Service in such Fiscal Year. If the Municipality is unable to meet this requirement, it will retain a Consulting Engineer to provide recommendations or adjustments to rates or modifications to operations to produce the necessary amount of System Net Revenues specified above in this Section 5.11(b) of this Loan Agreement.
- (c) If Municipality shall fail to comply with Section 5.11(a) or (b) above and is unable to bring itself into compliance within sixty (60) days thereafter, it shall immediately notify the Authority and the Trustee.

The Municipality may make or permit to be made adjustments from time to time in such rates, fees and charges and may make or permit to be made such classification thereof as it deems necessary, but shall not reduce or permit to be reduced such rates, fees and charges below those then in effect unless the System Revenues from such reduced rates, fees and charges will at all times be sufficient to meet the requirements of this Section.

Section 5.12 Enforcement of and Performance Under Contracts. The Municipality shall enforce all material provisions of any contracts to which it is a party, an assignee, successor in interest to a party or third-party beneficiary, in any case where such contracts provide for material payments or services to be rendered to the System. Further, the Municipality will comply with, keep, observe and perform all material agreements, conditions, covenants and terms, express or implied, required to be performed by it, contained in all contracts affecting or involving the System, to the extent that the Municipality is a party thereto.

Section 5.13 Collection of Charges, Fees and Rates. The Municipality will have in effect at all times rules and regulations requiring each user of the System to pay the applicable charges,

fees and rates and providing for the billing thereof and for a due date and a delinquency date for each bill. In each case where such bill remains unpaid in whole or in part after it becomes delinquent, the Municipality will enforce the collection procedures contained in such rules and regulations.

Section 5.14 No Free Service. The Municipality will not permit any part of the System or any facility thereof to be used or taken advantage of free of charge by any corporation, firm or person, charitable organization, or by any public agency (including the State of Idaho and any municipality, county, public agency, political subdivision, public corporation or agency or any division thereof), unless otherwise required by law or existing written agreements.

Section 5.15 Payment of Claims. The Municipality will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien or charge upon the System or upon the System Net Revenues or any part thereof, or upon any funds held by the Trustee, or which might impair the security of the Repayment Installments; *provided*, that nothing herein contained shall require the Municipality to make any such payments so long as the Municipality in good faith shall contest the validity of any such claims and such nonpayment will not materially adversely affect the Municipality's ability to perform its obligations hereunder.

Section 5.16 Books of Record and Accounts; Financial Statements. The Municipality will keep proper books of record and accounts in which complete and correct entries shall be made of all transactions relating to the System and the Income Fund, and upon request, which the Trustee has no duty to so request, will provide information concerning such books of record and accounts to the Trustee.

The Municipality will prepare annually, not later than one hundred eighty (180) days after the close of each Fiscal Year, so long as any Repayment Installments remain unpaid, an audited financial statement of the Municipality relating to the Income Fund and all other accounts or funds established pursuant hereto for the preceding Fiscal Year prepared by an Independent Certified Public Accountant, showing the balances in each such account or fund as of the beginning of such Fiscal Year and all deposits in and withdrawals from each such account or fund during such Fiscal Year and the balances in each such account or fund as of the end of such Fiscal Year, which audited financial statement shall include a statement as to the manner and extent to which the Municipality has complied with the provisions hereof. Failure to furnish said audited financial statements within said time may subject the Municipality to late charges by the Authority. The Municipality will furnish a copy of such audited financial statement to the Trustee upon request, and will furnish such reasonable number of copies thereof to investment bankers, security dealers and others interested in the Bonds.

Section 5.17 Payment of Taxes and Other Charges and Compliance With Governmental Regulations. The Municipality will pay and discharge all taxes, service charges, assessments and other governmental charges which may hereafter be lawfully imposed upon the System or any properties owned by the Municipality, or upon the System Revenues, when the same shall become due; *provided*, that nothing herein contained shall require the Municipality to make any

such payments so long as the Municipality in good faith shall contest the validity of any such taxes, service charges, assessments or other governmental charges and such nonpayment will not materially adversely affect the Municipality's ability to perform its obligations hereunder.

The Municipality will duly comply with all applicable State, federal and local statutes and all valid regulations and requirements of any governmental authority relative to the operation of the System or any part thereof, but the Municipality shall not be required to comply with any regulations or requirements so long as the validity or application thereof shall be contested in good faith and such noncompliance will not materially adversely affect the Municipality's ability to perform its obligations hereunder.

Section 5.18 Maintenance of Insurance. The Municipality agrees to maintain fire and extended coverage insurance on the System in such minimum amounts as are reasonable and prevalent for similar municipalities and systems in the State of Idaho and worker's compensation coverage on all full-time employees working on, in, near or about the System in accordance with applicable State laws. The Municipality may self-insure against such risks. The Municipality shall provide evidence of such insurance to the Authority or the Trustee, respectively, upon written request of either the Authority or the Trustee which the Trustee has no duty to so request.

Section 5.19 Delivery of Closing Documents. The Municipality agrees to execute and deliver on the Closing Date the documents attached hereto as Exhibit C.

Section 5.20 Authority Fees. The Municipality is paying to the Authority an Application Fee of \$500.00 which may be credited against the Authority Fee. The Municipality shall pay to the Authority the Authority Fee at the closing of the Loan and Annual Expense Charges each year.

ARTICLE VI - EVENTS OF DEFAULT AND REMEDIES

Section 6.1 Events of Default. Any one of the following which occurs and continues shall constitute an Event of Default pursuant to this Loan Agreement:

- (a) failure by the Municipality to transmit to the Trustee any Repayment Installment by the 15th day prior to the respective Repayment Installment Date; or
- (b) failure of the Municipality to observe and perform any covenant, condition or agreement on its part required to be observed or performed by this Loan Agreement, other than making the payments referred to in (a) above, which continues for a period of sixty (60) days after written notice, which notice shall specify such failure and request that it be remedied, given to the Municipality by the Authority or the Trustee, unless the Authority and the Trustee (at the direction of the Authority) shall agree in writing to an extension of such time; provided, however, that if the failure stated in the notice cannot be corrected within such period, the Authority and the Trustee (at the direction of the Authority) will not unreasonably withhold their consent to an extension of such time if corrective action is instituted within such period and diligently pursued until the default is corrected.

The provisions of subsection (b) of this Section are subject to the limitation that the Municipality shall not be deemed in default if and so long as the Municipality is unable to carry out its agreements hereunder by reason of strikes, lockouts or other industrial disturbances; acts of public enemies; orders of any kind of the government of the United States or of the State of Idaho or any of their departments, agencies, or officials, or any civil or military authority; insurrections, riots, epidemics, landslides; lightning; earthquake; fire; hurricanes; storms; floods; washouts; droughts; arrests; restraint of government and people; civil disturbances; explosions; breakage or accident to machinery, transmission pipes or canals; partial or entire failure of utilities; or any other cause or event not reasonably within the control of the Municipality; it being agreed that the settlement of strikes, lockouts and other industrial disturbances shall be entirely within the discretion of the Municipality, and the Municipality shall not be required to make settlement of strikes, lockouts and other industrial disturbances by acceding to the demands of the opposing party or parties when such course is, in the judgment of the Municipality, unfavorable to the Municipality. This limitation shall not apply to any default under subsection (a) of this Section.

Section 6.2 Remedies On Default. Whenever any Event of Default shall have occurred and shall continue, the following remedies may be pursued with respect to the Trustee, subject to its rights and protections under the Trust Agreement:

- (a) The Trustee shall have access to and the right to inspect, examine and make copies of the books and records and any and all accounts and data of the Municipality.
- (b) The Authority or the Trustee may take whatever action at law or in equity as may be necessary or desirable to collect the payments and other amounts then due and thereafter to become due or to enforce performance and observance of any obligation, agreement or covenant of the Municipality under this Loan Agreement including without limitation taking the actions under Section 3.6 hereof.

In case the Trustee or the Authority shall have proceeded to enforce its rights under this Loan Agreement and such proceedings shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or the Authority, then, and in every such case, the Municipality, the Trustee and the Authority shall be restored respectively to their several positions and rights hereunder, and all rights, remedies and powers of the Municipality, the Trustee and the Authority shall continue as though no such action had been taken (provided, however, that any settlement of such proceedings duly entered into by the Authority, the Trustee or the Municipality shall not be disturbed by reason of this provision).

In case the Municipality shall fail forthwith to pay amounts due by reason of this Section 6.2 upon demand of the Trustee, the Trustee shall be entitled and empowered to institute any action or proceeding at law or in equity for the collection of the sums so due and unpaid; and may prosecute any such action or proceeding to judgment or final decree, and may enforce any such judgment or final decree against the Municipality and collect in the manner provided by law the moneys adjudged or decreed to be payable.

In case proceedings shall be pending for the bankruptcy or for the reorganization of the Municipality under the federal bankruptcy laws or any other applicable law, or in case a receiver or trustee shall have been appointed for the property of the Municipality or in the case of any other similar judicial proceedings relative to the Municipality, or the creditors or property of the Municipality, then the Trustee shall be entitled and empowered, by intervention in such proceedings or otherwise, to file and prove a claim or claims for the whole amount owing and unpaid pursuant to this Loan Agreement and, in case of any judicial proceedings, to file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee allowed in such judicial proceedings relative to the Municipality, its creditors or its property, and to collect and receive any moneys or other property payable or deliverable on any such claims, and to distribute such amounts as provided in the Trust Agreement after the deduction of its charges and expenses. Any receiver, assignee or trustee in bankruptcy or reorganization is hereby authorized to make such payments to the Trustee, and to pay to the Trustee any amount due it for compensation and expenses, including expenses and fees of counsel incurred by it up to the date of such distribution.

Section 6.3 Agreement to Pay Attorneys' Fees and Expenses. In the event the Municipality should default under any of the provisions of this Loan Agreement and the Authority or the Trustee should employ attorneys or incur other expenses for the collection of the payments due under this Loan Agreement or the enforcement of performance or observance of any obligation or agreement on the part of the Municipality herein contained, the Municipality agrees to pay to the Authority or the Trustee the reasonable fees and expenses of such attorneys and such other expenses so incurred by the Authority or the Trustee.

Section 6.4 No Remedy Exclusive. No remedy herein conferred upon or reserved to the Authority or the Trustee is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Loan Agreement or now or hereafter existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Authority or the Trustee to exercise any remedy reserved to it in this Article, it shall not be necessary to give any notice, other than such notice as may be herein expressly required. Such rights and remedies as are given the Authority hereunder shall also extend to the Trustee, and the Trustee and the holders of the Bonds shall be deemed third party beneficiaries of all covenants and agreements herein contained.

Section 6.5 No Additional Waiver Implied by One Waiver. In the event any agreement or covenant contained in this Loan Agreement should be breached by the Municipality and thereafter waived by the Authority or the Trustee, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder.

Section 6.6 No Cross Default. The Municipality shall not be liable for the failure of any other municipality to make payments with respect to the Bonds. The occurrence of any Event of

Default of any other municipality under such municipality's loan agreement shall not constitute an Event of Default of the Municipality under this Loan Agreement.

ARTICLE VII - PREPAYMENT

Section 7.1 Redemption of Bonds with Prepayment Moneys. By virtue of the assignment of certain of the rights of the Authority under this Loan Agreement to the Trustee as is provided in Section 3.4 hereof, the Municipality agrees to and shall pay directly to the Trustee any amount permitted or required to be paid by it under this Article VII. The Trustee shall use the moneys so paid to it by the Municipality to effect redemption of the Bonds as set forth in this Article on the date specified for such redemption. The principal component of the Repayment Installments to be prepaid shall correspond in amount and maturity date to the Bonds related to this Loan Agreement.

Section 7.2 Option to Prepay Installments. The Repayment Installments specified in Schedule 1 attached hereto are subject to prepayment at the option of the Municipality on the dates and in the amounts as set forth in Schedule 1 which shall be consistent with the terms for redemption of the Authority Bonds.

Section 7.3 Amount of Prepayment. In the case of a prepayment, of the entire amount due hereunder pursuant to Section 7.2 hereof, the amount to be paid shall be a sum sufficient, together with other funds and (as such sufficiency is evidenced by a verification report of an Independent Certified Public Accountant) the yield on any securities deposited with the Trustee and available for such purpose, to pay all Repayment Installments thereafter due. In any event, any prepayment of Repayment Installments shall include sufficient funds to pay all principal, accrued interest, premium, if any, and other costs related to the redemption of the Authority's Bonds to be redeemed as a result of such prepayment.

Section 7.4 Notice of Prepayment. The Municipality shall give sixty days' prior written notice to the Authority and the Trustee specifying the date upon which any prepayment pursuant to this Article VII will be made. The Authority and the Trustee, at the request of the Municipality, shall forthwith take all steps necessary under the applicable provisions of the Trust Agreement (except that the Authority shall not be required to make payment of any money required for such redemption) to effect redemption of the part of the then outstanding Bonds related to this Loan Agreement, as the case may be, on the earliest practicable date thereafter, on or after the proposed prepayment date, on which such redemption may be made under applicable provisions of the Trust Agreement.

Notwithstanding anything to the contrary in this Loan Agreement, each notice contemplated in this Section 7.4 that is given with respect to an optional prepayment pursuant to Section 7.2 hereof may state that it is subject to and conditional upon receipt by the Trustee on or prior to the proposed prepayment date of amounts sufficient to effect such prepayment and, if a notice so states, such notice shall be of no force and effect and the prepayment need not be made and the Repayment Installments will not become due and

payable on the proposed prepayment date unless such amounts are so received on or prior to the proposed prepayment date.

ARTICLE VIII - DISCHARGE OF OBLIGATIONS

Section 8.1 Discharge and Defeasance of Obligations.

(a) The Repayment Installments shall be discharged to the extent the Bonds are discharged under the Trust Agreement. The principal components of the Repayment Installments to be discharged shall correspond in amount and maturity date to the Bonds related to this Loan Agreement.

(b) If the Municipality shall pay or cause to be paid or there shall otherwise be paid to the Trustee all of the Repayment Installments at the times and in the manner stipulated herein, and the Municipality shall pay in full all other amounts due hereunder, then all agreements, covenants and other obligations of the Municipality hereunder shall thereupon cease, terminate and become void and be discharged and satisfied. In such event, the Trustee shall execute and deliver to the Municipality all such instruments as may be necessary or desirable and prepared by or on behalf of the Municipality to evidence such discharge and satisfaction.

(c) Any Repayment Installments shall prior to the Repayment Installment Date or prepayment date thereof be deemed to have been paid within the meaning of and with the effect expressed in subsection (b) of this Section if (1) in case any of such Repayment Installments are to be prepaid, the Municipality shall have given to the Authority and Trustee in form satisfactory to it irrevocable instructions to provide notice in accordance with this Loan Agreement, (2) there shall have been deposited with the Trustee (A) money in an amount which shall be sufficient and/or (B) Government Securities, the interest on and principal of which when paid will provide money which, together with the money, if any, deposited with the Trustee at the same time, shall be sufficient, in the opinion of an Independent Certified Public Accountant, to transmit and pay when due the Repayment Installments on and prior to the Repayment Installment Dates or prepayment date thereof, as the case may be, and the prepayment premiums, if any, on such Repayment Installments, and (3) an Opinion of Counsel to the effect that such treatment will not adversely affect the tax-exempt status of interest on any Bonds hereunder, provided that this Agreement shall not be discharged and satisfied until all Repayment Installments have been paid or are deemed to have been paid as provided above.

ARTICLE IX - NON-LIABILITY OF AUTHORITY; EXPENSES; INDEMNIFICATION

Section 9.1 Non-Liability of Authority. The Authority shall not be obligated to pay the principal of, or premium, if any, or interest on the Bonds, or to discharge any other financial liability (including but not limited to financial liability under Section 5.7 hereof) in connection herewith, except from, and to the extent of, payments made by the Municipality under this Loan

Agreement, or through the State intercept provided under Section 3.6 of this Loan Agreement and Section 67-8727, Idaho Code, as amended. The Municipality hereby acknowledges that the Authority's sole source of moneys to repay the Bonds will be provided by the payments made by the Municipality pursuant to this Loan Agreement (excluding payments to the Authority or the Trustee pursuant to Section 5.7 and 9.3 of this Loan Agreement) and payments from other participating Municipalities and the State intercept provided under Section 67-8727, Idaho Code, as amended.

Section 9.2 Liability of Municipality Limited to System Revenues and Other Funds. The Municipality shall not be required to advance any moneys derived from any source of income other than the System Revenues, the Income Fund and the other funds provided herein for the payment of the Repayment Installments or for the performance of any agreements or covenants required to be performed by it contained herein. The Municipality may, however, advance moneys for any such purpose so long as such moneys are derived from a source legally available for such purpose and may be legally used by the Municipality for such purpose.

The obligation of the Municipality to make the Repayment Installments is a special obligation of the Municipality payable solely from the System Net Revenues and the other legally available funds provided for herein (except as provided in Section 3.6 or elsewhere herein), and does not constitute a debt of the Municipality or of the State of Idaho or of any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction.

Section 9.3 Indemnification. The Municipality releases the Authority and the Trustee from, and covenants and agrees that neither the Authority nor the Trustee shall be liable for, and covenants and agrees, to the extent permitted by law, to indemnify, defend and hold harmless the Authority and the Trustee and their officers, directors, elected officials, employees and agents from and against, any and all losses, claims, damages, liabilities or expenses, of every conceivable kind, character and nature whatsoever arising out of, resulting from or in any way connected with the financing or refinancing of the Project, or the conditions, occupancy, use, possession, conduct or management of, or work done in or about, or from the planning, design, acquisition, installation or construction of the Project or any part thereof.

ARTICLE X - MISCELLANEOUS

Section 10.1 Notices. All notices, certificates or other communications shall be deemed sufficiently given on the second day following the day on which the same have been mailed by first class mail, postage prepaid, addressed to the Authority, the Municipality or the Trustee, as the case may be. Notices for the Municipality shall be sent to the address specified in Schedule 1 attached hereto. Notices for the Authority and the Trustee shall be sent to the addresses set forth in the Trust Agreement. A duplicate copy of each notice, certificate or other communication given hereunder by either the Authority or the Municipality to the other shall also be given to the Trustee. The Authority, the Municipality and the Trustee may, by notice given hereunder, designate any different addresses to which subsequent notices, certificates or other communications shall be sent.

Section 10.2 Severability. If any provision of this Loan Agreement shall be held or deemed to be, or shall in fact be, illegal, inoperative or unenforceable, the same shall not affect any other provision or provisions herein contained or render the same invalid, inoperative, or unenforceable to any extent whatever.

Section 10.3 Execution of Counterparts. This Loan Agreement may be simultaneously executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 10.4 Amendments, Changes and Modifications. Subsequent to the initial issuance of Bonds and prior to their payment in full, or provision for such payment having been made as provided in the Trust Agreement, this Loan Agreement may be amended, changed or modified as set forth in Article X of the Trust Agreement.

Section 10.5 Governing Law. This Loan Agreement shall be governed exclusively by and construed in accordance with the applicable laws of the State of Idaho.

Section 10.6 Authorized Municipality Representative. Whenever under the provisions of this Loan Agreement the approval of the Municipality is required or the Authority or the Trustee is required to take some action at the request of the Municipality, such approval or such request shall be given on behalf of the Municipality by an Authorized Municipality Representative, and the Authority and the Trustee shall be authorized to act on any such approval or request and neither party hereto shall have any complaint against the other or against the Trustee as a result of any such action taken.

Section 10.7 Term of the Loan Agreement. This Loan Agreement shall be in full force and effect from the date hereof and shall continue in effect as long as the Municipal Bond is outstanding; provided, however, that the rights of the Trustee and the Authority under Section 9.3 hereof shall survive the termination of this Loan Agreement, the retirement of the Bonds and the removal or resignation of the Trustee. All representations and certifications by the Municipality as to all matters affecting the tax-exempt status of the Bonds shall survive the termination of this Loan Agreement.

Section 10.8 Binding Effect. This Loan Agreement shall inure to the benefit of and shall be binding upon the Authority, the Municipality, the Trustee and their respective successors and assigns.

Section 10.9. Post Issuance Tax Compliance Procedures of the Authority. The parties hereto both acknowledge the Post Issuance Tax Compliance Procedures of the Authority attached hereto as Exhibit F and agree that they will follow and comply with said procedures including without limitation the Municipality's agreement to retention of various records relating to the Loan as set forth in the said Procedures for the term of the Loan plus three years.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the City of Hailey, Blaine County, Idaho has caused this Loan Agreement to be executed in its name and its seal to be hereunto affixed by one of its duly authorized delegated officers, and the Idaho Bond Bank Authority has caused this Loan Agreement to be executed in its name and attested by its duly authorized officers, all as of the date first above written.

**CITY OF HAILEY, BLAINE COUNTY,
IDAHO**

By _____
Title: _____

IDAHO BOND BANK AUTHORITY

By _____
Executive Director

SCHEDULE 1: CITY OF HAILEY

Municipal Bond Purchase Price:	Par amount of \$ _____ plus a premium of \$ _____ less Underwriter Discount of \$ _____, for a net purchase price of \$ _____.
Repayment Amount:	\$ _____ plus interest.
Prior Obligations:	The Municipality's Sewer Revenue Bond, Series 2012, in the original principal amount of \$1,980,000.
Prepayment Provisions:	The Repayment Installments coming due on or prior to September 15, 2024 are not subject to prepayment. The Repayment Installments coming due on and after September 15, 2025 are subject to prepayment, at the written direction of the Municipality and with the consent of the Authority, from any moneys deposited with the Trustee, as a whole or in part on any date on or after September 15, 2024 among such payment dates as designated by the Authority to the Trustee, at the price of par, plus accrued interest, if any, to the date of prepayment.
Municipality address:	115 Main Street South, Suite H Hailey, Idaho 83333
Disbursement of Loan:	<ol style="list-style-type: none"> 1. \$ _____ to Municipality to deposit in its Project Fund for the Municipal Bond. 2. \$ _____ to the Series 2014C Cost of Issuance Account held by the Trustee under the Trust Agreement to pay various costs of issuance on the Series 2014C Bonds. 3. \$ _____ representing the Authority Fee shall be paid to the Authority from the Series 2014C Cost of Issuance Account. 4. \$ _____ to the Municipality as a rounding amount. 5. \$ _____ to the Municipality for Municipality costs of issuance.
Reserve Fund:	Municipality is transferring \$208,500.00 from reserve funds of the Municipality for the Prior Obligations and \$ _____ from proceeds of the Municipal Bond to fund the Reserve Fund as provided in Section 4.4 of this Loan Agreement.

EXHIBIT A

Description of the Project

The Project consists of financing the design and construction of renovations to the Municipality's existing sewer treatment facility system for the treatment of its citizen's wastewater to provide additional dewatering and biosolids handling facilities and related improvements to the facilities to meet current safety codes.

EXHIBIT C

Municipality Closing Documents

- a. Bond Ordinance authorizing the Municipal Bond, and execution of the Loan Agreement.
- b. Certificate as to Bond Pricing and Related Matters.
- c. Loan Agreement, dated as of November 1, 2014 between the Municipality and the Authority.
- d. Bond of the Municipality.
- e. Loan Application.
- f. Opinion of Bond Counsel.
- g. Federal Exemption Tax Certificate of Municipality.
- h. General Certificate.
- i. Signature and No Litigation Certificate.
- j. Receipt for Bond.
- k. IRS Form 8038-G.
- l. Receipt for Proceeds of Bond.
- m. Cash Flows.

EXHIBIT D

**Fees charged by Authority for failure to comply with
Continuing Disclosure Requirements**

Continuing Disclosure Late Fee Scale

Initial Fee:

Due if filing within three months after filing
deadline:

Lesser of \$7,500 or 0.50% of issued amount

Additional Fees:

Due every 3 months after the Initial Fee due date: Lesser of \$500 or 0.20% of issued amount

This scale will pertain to every outstanding borrowing of the Municipality from the Idaho Bond Bank Authority.

EXHIBIT E

Post Issuance Tax Compliance Procedures
(attached)

Idaho Bond Bank Authority
Post-Issuance Tax Compliance Procedures
For Tax-Exempt Bonds

February 13, 2012

The purpose of these Post-Issuance Tax Compliance Procedures is to establish policies and procedures in connection with tax-exempt bonds ("Bonds") issued by the Idaho Bond Bank Authority (the "Authority") so as to ensure that the Authority complies with all applicable post-issuance requirements of federal income tax law needed to preserve the tax-exempt status of the Bonds. The Authority reserves the right to use its discretion as necessary and appropriate to make exceptions or request additional provisions as circumstances warrant. The Authority also reserves the right to change these policies and procedures from time to time.

General

Inasmuch as the Authority is a responsible conduit issuer authorizing the issuance of Bonds for eligible borrowers (each, a "Borrower"), the Authority now identifies post-issuance tax compliance procedures for all Bonds issued by the Authority for Borrowers, as well as the Authority's expectations of and requirements for all Borrowers concerning these procedures. For tax-exempt bonds issued by the Authority, each loan ("Loan") to each Borrower will be a tax-exempt obligation, as evidenced by an unqualified opinion of bond counsel to each Borrower. Ultimate responsibility for all matters relating to Authority financings and refinancings rests with the Authority Executive Director (the "Executive Director"). Ultimate responsibility for all matters relating to Loans rests with the corresponding officer at each Borrower.

Post-Issuance Compliance Requirements

External Advisors / Documentation

The Executive Director and other appropriate Authority personnel and the corresponding personnel of each Borrower shall consult with bond counsel and other legal counsel and advisors, as needed, throughout the Bond issuance process to identify requirements and to establish procedures necessary or appropriate so that the Bonds will continue to qualify for the appropriate tax status. Those requirements and procedures shall be documented in an Authority and Borrower resolutions, Tax Certificates and / or other documents finalized at or before issuance of the Bonds. Those requirements and procedures shall include future compliance with applicable arbitrage rebate requirements and all other applicable post-issuance requirements of federal tax law throughout (and in some cases beyond) the term of the Bonds or the Loan, as appropriate.

The Executive Director and other appropriate Authority personnel and the corresponding personnel of each Borrower also shall consult with bond counsel and other legal counsel and advisors, as needed, following issuance of the Bonds to ensure that all applicable post-issuance requirements in fact are met. This shall include, without limitation, consultation in connection with future contracts with respect to the use of Bond-financed assets and future contracts with respect to the use of output or throughput of Bond- financed assets.

Whenever necessary or appropriate, the Authority shall engage expert advisors (each a "Rebate Service Provider") to assist in the calculation of arbitrage rebate payable in respect of the investment of Bond proceeds.

Role of the Authority as Bond Issuer

Unless otherwise provided by Authority resolutions, unexpended Bond proceeds shall be held by the Authority, and the investment of Bond proceeds shall be managed by the Executive Director. The Executive Director shall maintain records regarding the investments and transactions involving Bond proceeds held by the Authority or the Trustee for the bonds. Funds transferred to the Borrower shall constitute expending Bond proceeds for the purposes of the Authority. Any investment of funds by the Borrower or Borrower's Trustee is the responsibility of the Borrower. As such, all record retention and other responsibilities associated with Borrower proceeds is the sole responsibility of the Borrower.

If an Authority resolution provides for Bond proceeds to be administered by a trustee, the trustee shall provide regular, periodic (monthly) statements regarding the investments and transactions involving Bond proceeds.

Arbitrage Rebate and Yield

The Authority will loan out all proceeds to underlying Borrowers at issue. As such, the requirement for arbitrage rebate and yield calculations will not be applicable.

The Authority will consult annually with bond counsel and tax counsel to confirm the applicability of arbitrage rebate and yield calculations. If at any time it is determined that these requirements are applicable, the Authority shall do the following:

- the Authority shall engage the services of a Rebate Service Provider, and the Authority or the Bond trustee shall deliver periodic statements concerning the investment of Bond proceeds to the Rebate Service Provider on a prompt basis;
- upon request, the Executive Director and other appropriate Authority personnel shall provide to the Rebate Service Provider additional documents and information reasonably requested by the Rebate Service Provider;

- the Executive Director and other appropriate Authority personnel shall monitor efforts of the Rebate Service Provider and assure payment of required rebate amounts, if any, no later than 60 days after each 5-year anniversary of the issue date of the Bonds, and no later than 60 days after the last Bond of each issue is redeemed; and
- during the construction period of each capital project financed in whole or in part by Bonds, the Executive Director and other appropriate Authority personnel shall monitor the investment and expenditure of Bond proceeds and shall consult with the Rebate Service Provider to determine compliance with any applicable exceptions from the arbitrage rebate requirements during each 6-month spending period up to 6 months, 18 months or 24 months, as applicable, following the issue date of the Bonds.

For working capital financings, if any, the Authority shall follow procedures set forth in the applicable Tax Certificate and/or instructions delivered at bond or note closing.

The Authority shall retain copies of all arbitrage reports and trustee statements as described below under "Record Keeping Requirements".

Use of Bond Proceeds

Except for the obligation of the Authority to maintain records regarding the Loans made from Bond proceeds, it is the Authority's policy that the Borrower shall be responsible for:

- monitoring the use of Loan proceeds and the use of Loan-financed assets (e.g., facilities, furnishings or equipment) and the use of output or throughput of Loan-financed assets throughout the term of the Loan (and in some cases beyond the term of the Loan) to ensure compliance with covenants and restrictions set forth in applicable Authority and Borrower resolutions and Tax Certificates;
- maintaining records identifying the Loan and the assets or portion of assets that are financed or refinanced with proceeds of each Loan;
- consulting with Bond Counsel and other professional expert advisers in the review of the Loan and any contracts or arrangements involving use of Loan-financed facilities to ensure compliance with all covenants and restrictions set forth in applicable Authority and Borrower resolutions and Tax Certificates;
- maintaining records regarding the Loan and for any contracts or arrangements involving the use of Loan-financed facilities as might be necessary or appropriate to document compliance with all covenants and restrictions set forth in applicable Authority and Borrower resolutions and Tax Certificates;
- meeting or conferring at least annually with personnel responsible for the Loans and Loan-financed assets to identify and discuss any existing or planned use of Loan-financed,

assets or output or throughput of Loan-financed assets, to ensure that the Loan and those uses are consistent with all covenants and restrictions set forth in applicable Authority and Borrower resolutions and Tax Certificates.

- taking timely remedial actions under section 1.141-12 of the Treasury Regulations (or other remedial actions authorized by the Commissioner of the IRS under Section 1.141-12(h) of the Regulations) to prevent from being considered "deliberate actions" any actions of the Borrower which cause the conditions of the private business tests or the private loan financing test to be met resulting in the Loan becoming a private activity bond.

All relevant records and contracts shall be maintained as described below and in the applicable Tax Certificate. The Borrower, in the Tax Certificate relating to the Loan and/or other documents finalized at or before the issuance of the Bonds, shall designate an officer or employee responsible for the tasks listed above.

Investment of Bond Proceeds

Investment of bond proceeds maintained by the Authority shall remain in compliance with the arbitrage bond rules and rebate of arbitrage as supervised by the Executive Director.

- Guaranteed investment contracts ("GIC") will be purchased only using the three-bid "safe harbor" of applicable Treasury regulations, in compliance with fee limitations on GIC brokers in the regulations.
- Other investments will be purchased only in market transactions.
- Calculations of rebate liability will be performed annually by outside consultants.
- Rebate payments will be made with Form 8038-T no later than 60 days after (a) each fifth anniversary of the date of issuance and (b) the final retirement of the issue. Compliance with rebate requirements will be reported to the bond trustee and the issuer.
- Identify date for first rebate payment at time of issuance. Enter in records for the issue.

The investment of all proceeds received by the Borrower is the responsibility of the Borrower to supervise and maintain compliance with the arbitrage bond rules and rebate of arbitrage.

Record Keeping Requirements

Unless otherwise specified in applicable Authority resolutions or Tax Certificates, the Authority shall maintain the following documents for the term of each issue of Bonds (including refunding Bonds, if any) plus at least three years:

- a copy of the Bond closing transcript(s) and other relevant documentation delivered to the Authority at or in connection with closing of the issue of Bonds; and
- copies of all records of investments, investment agreements, arbitrage reports and underlying documents, including trustee statements.

Unless otherwise specified in applicable Authority resolutions or Tax Certificates, it is the Authority's policy that the Borrower shall be responsible for maintaining the following documents for the term of each Loan (including refunding obligations, if any) plus at least three years:

- a copy of all material documents relating to capital expenditures financed or refinanced by Loan proceeds, including (without limitation) loan documents for the Authority's pooled loans to municipalities and construction contracts, purchase orders, invoices, trustee requisitions and payment records, as well as documents relating to costs reimbursed with Loan proceeds and records identifying the assets or portion of assets that are financed or refinanced with Loan proceeds;
- a copy of all contracts and arrangements involving private use of Loan-financed assets or for the private use of output or throughput of Loan-financed assets; and
- copies of all records of investments, investment agreements, arbitrage reports and underlying documents, including trustee statements.

The Borrower, in the Tax Certificate relating to the Loan and/or other documents finalized at or before the issuance of the Bonds, shall designate an officer or employee responsible for retaining the records listed above.