AGENDA ITEM SUMMARY

DATE: 11/19/12 DEPARTMENT: Admin DEPT. HEAD SIGNATURE: HD

SUBJECT:
Idaho Bond Bank – Wastewater Bond Refinance

AUTHORITY: ☐ ID Code _____ ☐ IAR _____ ☐ City Ordinance/Code _____
(IFAPPLICABLE)

BACKGROUND/SUMMARY OF ALTERNATIVES CONSIDERED:
On August 20, 2012, the Hailey City Council approved an application to the Idaho Bond Bank to refinance the wastewater treatment plant bond. The Idaho Bond Bank considered and approved our application. With significantly lower interest rates gained in the refinancing, the result cash savings will be $395,000.

The Bond Bank's consideration was based on 2011 FY audited figures. Two qualifying elements apply:

1. The Bond Bank requires a bond reserve if Net Revenues are less than 150% of the bond payment. 2011 Net Revenues were only 106% of our current 358,000 bond payment. A bond reserve of $198,000 will be required.

2. The Bond Bank requires a minimum of 125% Net Revenue over bond payment. We did not meet that minimum requirement. Our application was approved contingent upon us paying down bond principal to lower our bond payment so that the 125% requirement is met. Our bond payment will have to be lowered from $358,000 to meet this requirement.

3. Our 2012 audit is underway, and we have identified that 2012 FY figures will also be below the 125% Net Revenue required. In order for both FY 2011 and FY2012 to meet Bond Bank requirements, Hailey would pay sufficient principal to lower our bond payment from $358,000 to $275,000.

4. That pay-down amount is $350,000 and would be made from the Wastewater Replacement Fund.

5. In addition to that pay-down, a bond reserve of $198,000 would be required, which would come from the Water User Fund.

Recommendation: We recommend paying down the bond principal with Wastewater Replacement Funds. Our current fund balance in the Wastewater Replacement Fund is $758,000. After bond pay-down of $350,000, our reserve would be reduced to $408,000.

758,000	Fund Balance WW Replacement Fund
- 350,000	Amount of bond pay-down
408,000	Fund Balance remaining after pay-down

Recommendation: We recommend establishing the debt service reserve fund with Wastewater User Funds. Our current fund balance is just over $700,000. The reserve requirement of $198,000 would reduce available funds to just over $500,000. At the end of the 9 remaining years of this bond (final bond payment would be made September 15, 2021), this reserve would be freed up for Wastewater User Fund expenses.

Analyses: The current Wastewater Replacement Fund of $758,000 is fully restricted at this time for future debt payments on the existing bond. The current bond payment of $358,000 is paid partially from this fund, at $118,300 per year. When we built the treatment plant, a portion of the project was Replacement, as we decommissioned the Riverside Treatment Plant and merged all of our treatment operations into the expanded Woodside Treatment Plant. We identified at that time that the proportionate share of the Replacement fund would be $118,300 per year, and that 100 new hookups per year would bring in sufficient revenue. New hookups have declined for several years, and the current Replacement Fund Reserve is sufficient to pay only 6 of the 9 years left under this bond, without new revenue. We will need over $300,000 in new hookup revenue over the next 9 years to continue to pay the Replacement fund portion of the bond payment.

Our bond rates are set to collect $240,000 each year in bond payment. Because we are using Replacement Funds to pay a portion of the bond and not collecting the full $358,000 each year from users, our Net Revenues do not meet any bonding agency's requirements.

240,000	Current Bond Revenue budgeted ($6.43/hookup/ month)-User Fund
+118,300	Amount paid out of Replacement Fund, approximately one-third of total
358,300	Total current bond payment

In order to meet bond agency requirements for any future bond measure, we must bring our bond rate assessed against users up to the full bond payment amount. At the current $358,000 bond payment amount, we should increase rates over $3 per month for users.

If we pay down the bond principal to $275,000, the increase in bond rate to collect that amount each year from users would be approximately $1 per month per user over the $6.43 users currently pay.

Summary of Benefits in Refinancing:

- Cash savings in interest of approximately $395,000
- Bond pay-down from Replacement fund of $350,000
- The bond pay-down cost is less than the savings, a positive financial gain.
- Free up the remaining $408,000 of Replacement fund balance for current needs.
- Free up all future Replacement revenue for current needs, instead of needing $306,000 of future hookup revenue for bond payments.
- Ongoing bond payment of $275,000 – low enough to collect entire bond through rates.
- Collecting entire bond payment through rates will bring future balance sheets into compliance with the 125% Net Revenue requirement.

Challenges and Alternatives:
The above analyses bring us into compliance with 2011 and 2012 FY Net Revenue requirements of bonding agencies. However, even with the wastewater rate increase just implemented as of October 1, 2012, FY 2013 projections of our budget still leave us short of the 125% requirement at only 86% Net Revenue (see attached). That is because the user rates are set to cover budgeted expenses and the bond rate is set to collect only $240,000 of the bond amount rather than the entire $358,000.

This projected 2013 deficiency can be managed in one of three ways:

1. The Bond Refinancing Ordinance 1114 establishes a Rate Stabilization Fund. The city would be required, at bond closing, to put sufficient funds into that account to achieve the 125%. That deposit could be made from either Replacement Fund or User Fund reserves, and would need to be $118,300.

2. The City could manage its 2013 budget to underspend the budgeted amount. The attached spreadsheet identifies that savings of $118,300 could be achieved by not filling a vacant position and saving an additional $37,000 in expenses. We do not anticipate that this method will be achievable, due to new treatment plant processing costs required under our new NPDES permit.

3. Raise rates again to collect sufficient revenue. This rate increase would be significant, over $3 per user.

We recommend Alternative 1 above, using Wastewater User Funds in the amount of $118,300. These are not restricted funds, and can be utilized within the User fund after the 125% is achieved through proper rates.

ACKNOWLEDGEMENT BY OTHER AFFECTED CITY DEPARTMENTS: (IFAPPLICABLE)

☐	City Administrator	☐	Library	☐	Streets
☐	City Attorney	☐	Mayor	☐	Treasurer
☐	City Clerk	☐	Public Works, Parks	☐	_____
☐	Engineer	☐	P & Z Commission	☐	_____
☐	Fire Dept.			☐	_____

RECOMMENDATION FROM APPLICABLE DEPARTMENT HEAD:

Approve Ordinance 1114 to refinance the wastewater bonds.
Approve Summary of Ordinance 1114
Approve Form of Bond
Approve Loan Agreement
Approve Wells Fargo Escrow Agreement (packet version is marked up, and final version will be available after pricing is completed)
Approve publication of Notice of Intent to Sell Bonds

A Preliminary Official Statement of over 200 pages is available for your review at City Hall.

ACTION OF THE CITY COUNCIL:
Date : _____

City Clerk _____

FOLLOW-UP:

*Ord./Res./Agrmt./Order Originals: Record
Copies (all info.):
Instrument # _____

*Additional/Exceptional Originals to: _____
Copies (AIS only)

City of Hailey
Sewer System
Historical & Projected Debt Service Coverage

	2013 less 1 emp and less $37000 operating expense	2013 budgeted	2012 Preliminary W/ Refunded D.S.	Actual 2011	Actual 2010	Actual 2009
OPERATING REVENUES						
User charges	1441517	1,441,517	$ 1,291,540	$ 1,209,896	$ 1,171,366	$ 1,285,405
Miscellaneous	18,500	18,500	0	71	1,900	0
Total Operating Revenues	1,460,017	1,460,017	1,291,540	1,209,967	1,173,266	1,285,405
OPERATING EXPENSES						
Salaries and Benefits	322132	390,708	496,785	532,725	572,954	584,883
Administrative and Supplies	809938	846,938	463,491	320,129	383,616	387,139
Depreciation	329683	329,683	329,683	325,534	377,436	381,538
Total Operating Expenses	1,461,753	1,567,329	1,289,959	1,178,388	1,334,006	1,353,560
NET OPERATING INCOME	(1,736)	(107,312)	1,581	31,579	(160,740)	(68,155)
Add: Investment/Interest income -enterprise fund	15,000	15,000	12,890	22,223	15,470	28,636
Add: Depreciation expense	329,683	329,683	329,683	325,534	377,436	381,538
AVAILABLE FOR DEBT SERVICE PRIOR TO HOOK-UP FEES	342,947	237,371	344,154	379,336	232,166	342,019
DEBT SERVICE						
Series 2001 Sewer Revenue	275,000	275,000	275,000	358,422	358,575	357,125
Total Debt Service	275,000	275,000	275,000	358,422	358,575	357,125
DEBT SERVICE COVERAGE BEFORE HOOK-UP FEES	1.25	0.86	1.25	1.06	0.65	0.96
Hook-up and inspection fees	20,000	20,000	42,709	103,367	21,889	26,187
Add: Other Grants and Miscellaneous			56,977	126,088	160,570	89,988
DEBT SERVICE COVERAGE AFTER HOOK-UP FEES	1.32	0.94	1.41	1.35	0.71	1.03
SURPLUS FUNDS AVAILABLE AFTER PAYING DEBT SERVICE			$ 111,863	$ 124,281	$ (104,520)	$ 11,081

SUMMARY OF
ORDINANCE NO. 1114

AN ORDINANCE OF THE CITY OF HAILEY, BLAINE COUNTY, IDAHO, AUTHORIZING AND PROVIDING FOR THE ISSUANCE OF A SEWER REVENUE REFUNDING BOND, SERIES 2012, IN A PRINCIPAL AMOUNT NOT TO EXCEED $2,580,000, FOR THE PURPOSE OF REFUNDING OF THE CITY'S OUTSTANDING SEWER REVENUE BONDS; PROVIDING FOR THE COLLECTION AND APPLICATION OF SEWER REVENUES TO PAY THE PRINCIPAL OF AND INTEREST ON THE BOND; ESTABLISHING FUNDS; PROVIDING FOR THE FORM, EXECUTION, REGISTRATION, MATURITY, AND PAYMENT OF THE BOND; PROVIDING COVENANTS RELATING TO THE BOND AND THE TAX-EXEMPT STATUS OF THE INTEREST ON THE BOND; APPROVING A FORM OF LOAN AGREEMENT BETWEEN THE CITY AND THE IDAHO BOND BANK AUTHORITY; PROVIDING FOR RELATED MATTERS; APPROVING A SUMMARY OF THIS ORDINANCE FOR PUBLICATION; AND PROVIDING AN EFFECTIVE DATE.

A summary of the principal provisions of Ordinance No. 1114 of the City of Hailey, Blaine County, Idaho, adopted on November 19, 2012, is as follows:

Section 1: Defines the terms and phrases used in the Ordinance.

Section 2: Makes findings with respect to the refunding of the City's outstanding Sewer Revenue Bonds, Series 2001.

Section 3: Describes the City of Hailey Sewer Revenue Refunding Bond, Series 2012 (the "Bond").

Section 4: Provides for the manner and method of execution of the Bond.

Section 5: Provides for the place and manner of payment of the Bond.

Section 6: Appoints the City Treasurer as Bond Registrar.

Section 7: Provides for the prepayment and defeasance of the Bond.

Section 8: Establishes funds and provides for the refunding of the Refunded Bonds.

Section 9: Provides for additional bonds.

Section 10: Provides for investment of surplus funds.

Section 11: Provides general covenants for the Bond.

EXHIBIT "A"

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Section 12: Provides special covenants for the Bond.

Section 13: Approves a Loan Agreement with, and provides for the sale of the Bond to, the Idaho Bond Bank Authority.

Section 14: Provides for amendments to the Ordinance.

Section 15: Provides for validity of issuance.

Section 16: Provides remedies for the Registered Owner of the Bond.

Section 17: States that the Ordinance constitutes a contract with the Registered Owner of the Bond.

Section 18: Provides for severability.

Section 19: Repeals prior inconsistent ordinances, to the extent of any inconsistency.

Section 20: Authorizes the Mayor, City Clerk, and City Treasurer to execute any additional documents necessary to sell and deliver the Bond.

Section 21: Provides for the publication of the Ordinance or a summary thereof and the effective date of the Ordinance.

The full text of Ordinance No. 1114 is available at City Hall and will be provided to any citizen upon personal request during normal office hours.

DATED this 19th day of November, 2012.

CITY OF HAILEY
Blaine County, Idaho

_____
Mayor

ATTEST:

_____
City Clerk

EXHIBIT "A"

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CERTIFICATION OF ATTORNEY

I, the undersigned Special Counsel for the City of Hailey, Blaine County, Idaho, hereby certify that I have read the attached summary of Ordinance No. 1114 of the City of Hailey and that the same is true and complete and provides adequate notice to the public of the contents of said Ordinance.

Dated as of the 19th day of November, 2012.

_____
Attorney at Law

EXHIBIT "A"

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ORDINANCE NO. 1114

AN ORDINANCE OF THE CITY OF HAILEY, BLAINE COUNTY, IDAHO, AUTHORIZING AND PROVIDING FOR THE ISSUANCE OF A SEWER REVENUE REFUNDING BOND, SERIES 2012, IN A PRINCIPAL AMOUNT NOT TO EXCEED $2,580,000, FOR THE PURPOSE OF REFUNDING OF THE CITY'S OUTSTANDING SEWER REVENUE BONDS; PROVIDING FOR THE COLLECTION AND APPLICATION OF SEWER REVENUES TO PAY THE PRINCIPAL OF AND INTEREST ON THE BOND; ESTABLISHING FUNDS; PROVIDING FOR THE FORM, EXECUTION, REGISTRATION, MATURITY, AND PAYMENT OF THE BOND; PROVIDING COVENANTS RELATING TO THE BOND AND THE TAX-EXEMPT STATUS OF THE INTEREST ON THE BOND; APPROVING A FORM OF LOAN AGREEMENT BETWEEN THE CITY AND THE IDAHO BOND BANK AUTHORITY; PROVIDING FOR RELATED MATTERS; APPROVING A SUMMARY OF THIS ORDINANCE FOR PUBLICATION; AND PROVIDING AN EFFECTIVE DATE.

WHEREAS, the City of Hailey, Blaine County, Idaho (the "City"), is a municipal corporation duly organized and operating under and pursuant to the laws of the State of Idaho; and

WHEREAS, the City owns and operates a sanitary sewer collection and treatment system (the "System") for the benefit of the residents of the City; and

WHEREAS, the City heretofore, on April 17, 2001, issued its Sewer Revenue Bonds, Series 2001, in the original principal amount of $4,500,000 (the "Refunded Bonds");

WHEREAS, a portion of the principal amount of the Refunded Bonds remains outstanding; and

WHEREAS, the Mayor and Council have determined that it is in the best interests of the City and its utility ratepayers to refund the Refunded Bonds and to issue refunding bonds for that purpose; and

WHEREAS, the ordinance pursuant to which the Refunded Bonds were issued reserves the right of the City to redeem the Refunded Bonds, in part or in full, prior to maturity, upon notice as provided in said ordinance; and

WHEREAS, the City is authorized by the Constitution and laws of Idaho to issue refunding bonds to refund its outstanding bonds whenever the Mayor and Council determine that a savings or other beneficial public objective can be achieved thereby, without an approving vote of the electors of the City, and to sell such refunding bonds at private sale; and

WHEREAS, the Idaho Bond Bank Authority (the "Authority") is an independent body corporate and politic created and operating pursuant to Title 67, Chapter 87, Idaho Code, as amended (the "Act"), and the Authority is authorized by the Act to issue bonds for the purpose of

purchasing municipal bonds, including bonds evidencing loans undertaken by municipalities for purposes authorized by law; and

WHEREAS, Section 67-8722, Idaho Code, authorizes the sale by the City of its bonds to the Authority at private sale and further authorizes the City to enter into a loan agreement for such purpose, and the Mayor and Council have determined to issue the refunding obligations of the City in the form of a single, amortized sewer revenue refunding bond in an aggregate principal amount not to exceed $2,580,000 to the Authority; and

NOW, THEREFORE, BE IT ORDAINED BY THE MAYOR AND COUNCIL OF THE CITY OF HAILEY, Blaine County, Idaho, as follows:

Section 1: DEFINITIONS

As used in this Ordinance, the following words shall have the following meanings:

Act means, collectively, Title 50, Chapter 10, Title 57, Chapters 2, 5, and 9, and Title 67, Chapter 87, Idaho Code.

Additional Bonds means any bonds issued pursuant to Section 9 of this Ordinance.

Annual Debt Service means the amount required in a given Fiscal Year of the City for the payment of the principal of and interest on the Bond.

Average Annual Debt Service means the average annual amount required over the term of the Bond from the time of calculation for the payment of the principal of and interest on the Bond.

Authority means the Idaho Bond Bank Authority, an independent body corporate and politic created and operating pursuant to Title 67, Chapter 87, Idaho Code.

Bond means the City of Hailey Sewer Revenue Refunding Bond, Series 2012, herein authorized to be issued, sold, and delivered.

Bond Counsel means Moore Smith Buxton & Turcke, Chartered, Boise, Idaho, or another attorney at law or a firm of attorneys of nationally recognized standing in matters pertaining to the tax-exempt status of interest on obligations issued by states and their political subdivisions, duly admitted to the practice of law before the highest court of any state of the United States.

Bond Fund means the Bond Fund established by Section 8 of this Ordinance.

Bond Register means the registration books on which are maintained the names and addresses of the Owner or nominees of the Owner of the Bond.

Bond Registrar means the bond registrar, transfer agent, and authenticating and paying agent appointed and designated in Section 6 of this Ordinance, and any successor Bond Registrar.

City means the City of Hailey, Blaine County, Idaho.

City Clerk means the Clerk of the City, or other officer of the City who is the custodian of the seal of the City and of the records of the proceedings of the City, or his/her successor in functions, if any.

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

Cost of Issuance Fund means the fund created by Section 8(A) of this Bond Ordinance for the payment of the costs of issuance of the Bond.

Council means the City Council of the City.

Escrow Agreement means the Escrow Deposit Agreement between the City and Bank of New York Mellon Trust Company, N.A., as authorized by Section 8C of this Ordinance.

Escrow Agent means Bank of New York Mellon Trust Company, N.A., as escrow agent under the Escrow Agreement.

Escrow Fund means the Escrow Fund established by the Escrow Agreement.

Estimated Net Revenues means, for any current or prior Fiscal Year of the City, the estimated Revenues of the System for such year less the estimated Operation and Maintenance Expenses for such year, based upon estimates prepared by the City Engineer or an independent engineer, or an independent certified public accountant. In computing Estimated Net Revenues, Revenues of the System may be adjusted as necessary to reflect any changed schedule of rates and charges.

Fiscal Year means the annual fiscal year of the City, currently commencing on October 1 of each year and ending on September 30 of the following year.

Government Obligations shall have the meaning ascribed to that term in the Escrow Agreement.

Interest Payment Date(s) means the payment date(s) on the Bond set forth in the Loan Agreement.

Loan Agreement means the loan agreement between the Authority and the City, substantially in the form which is annexed hereto as Exhibit "C," and referred to and authorized in Section 13 of the Ordinance.

Maximum Annual Debt Service means an amount equal to the greatest Annual Debt Service on the Bond for the then-current or any future Fiscal Year of the City.

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

Net Revenues means Revenue of the System after the deduction of Operation and Maintenance Expenses.

Operation and Maintenance Expenses or any phrase of similar import means all reasonable and necessary current expenses of the City, (except depreciation), paid or accrued, of operating, maintaining, and repairing the System or of levying, collecting, and otherwise administering the Net Revenues for the payment of the Bond; 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 bonds and property and liability insurance premiums pertaining 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;

(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) The reasonable charges of the bond registrar, fiscal or paying agent, commercial bank, trust bank, or other depository bank pertaining to the Bonds issued by the City or pertaining to the Project, if any;

(6) Contractual services, professional services, salaries, other administrative expenses, and the cost of materials, supplies, repairs, and labor, pertaining to the issuance of the Bond and to the ordinary operation of the System; and

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

Ordinance means this Ordinance No. 1114, adopted on November 19, 2012.

Record Date means in the case of each Interest Payment Date, the Bond Registrar's close of business on the fifteenth day next preceding the date on which such Interest Payment Date falls.

Refunded Bonds means the City of Hailey Sewer Revenue Bonds, Series 2001, issued on April 17, 2001, in the original principal amount of $4,500,000 pursuant to Ordinance No. 778, adopted on April 2, 2001.

Refunding Account means the Refunding Account established by Section 8 of this Ordinance.

Registered Owner means the purchaser of the Bond and any subsequent transferee or purchaser of the Bond.

Regulations means the Treasury Regulations issued or proposed under Section 103, Section 148, Section 149, or Section 150 of the Code (26 CFR Part 2) or other sections of the Code relating to "arbitrage bonds" or rebate, including without limitation Sections 1.148-0 through 1.148-11 and 1.150-1 of the Treasury Regulations, to the extent applicable, and includes amendments thereto or successor provisions.

Reserve Fund means the "City of Hailey Sewer Revenue Bond Debt Service Reserve Fund" referred to in Section 8(F) of this Ordinance.

Reserve Requirement means the monies to be held by the City in the Reserve Fund to secure payment of debt service on the loan and the Bond in an amount provided by the Loan Agreement, which amount shall not exceed the lesser of (i) the maximum annual principal and interest requirements on the Bond, or (ii) 125% of the average annual principal and interest requirements on the Bond, not to exceed ten percent (10%) of the proceeds of the Bond.

Revenue Fund means the "City of Hailey Sewer Revenue Fund" referred to in Sections 8(A) and 8(D) of this Ordinance.

Revenue of the System shall have the same meaning as the definition of "System Revenues" in the Loan Agreement.

System means the sanitary sewer collection and treatment system of the City, as the same now exists, including its 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 sewer facilities from the operation of or in connection with which the revenues of the payment of the Bond to be issued hereunder will be derived, and the lands pertaining thereto.

Treasurer means the Treasurer of the City, or his/her successor in functions, if any.

Treasury Regulations means the Treasury Regulations issued or proposed under Section 103, Section 148, Section 149, or Section 150 of the Code (26 CFR Part 2) or other sections of the Code relating to "arbitrage bonds" or rebate, including without limitation Sections 1.148-0 through 1.148-11 and 1.150-1 of the Treasury Regulations, to the extent applicable, and includes amendments thereto or successor provisions.

Trustee means the Bank of New York Mellon Trust Company, N.A. or such other trustee designated by the Authority pursuant to the Master Trust Agreement and latest Supplemental Trust Agreement between the Authority and the Bank of New York Mellon Trust Company, N.A., as such agreements may be amended from time to time (collectively the "Trust Agreement").

Written Certificate means an instrument in writing on behalf of the City executed by an authorized officer of the City.

Section 2: FINDINGS

The Mayor and Council hereby find, determine, and declare:

A. That the City's Refunded Bonds can be refunded at a cost saving to the benefit of the City and its utility ratepayers; that it is desirable and necessary for the benefit of the City and its utility ratepayers to refund the Refunded Bonds for the purpose of achieving a cost saving and other beneficial public objectives; and that the net proceeds of the Bond, together with other lawfully available moneys of the City, to the extent necessary, shall be used to refund the Refunded Bonds.

B. That it is the intent of the Mayor and Council to issue the Bond for the purpose of providing funds in an amount sufficient, together with other lawfully available funds of the City, if necessary, to refund, redeem, and retire the Refunded Bonds.

Section 3: THE BOND

The Bond, designated "City of Hailey Sewer Revenue Refunding Bond, Series 2012" (the "Bond"), in an aggregate principal amount not to exceed $2,580,000, is hereby authorized to be issued, sold, and delivered pursuant to the Act. The Bond shall consist of a single, transferrable, amortized revenue bond, substantially in the form annexed hereto as Exhibit "B," shall be issued in fully registered form, shall be dated as of its date of delivery, and shall bear interest on its unpaid principal balance at such rate or rates, shall be payable at such times and in such amounts, and shall mature, as shall be set forth in the Loan Agreement.

Section 4: EXECUTION

The Bond shall be executed by the manual signature of the Mayor, countersigned by the manual signature of the Treasurer, and attested by the manual signature of the City Clerk, and the seal of the City shall be impressed thereon.

Section 5: PLACE AND MANNER OF PAYMENT

Both principal of and interest on the Bond shall be payable in lawful money of the United States of America to the Registered Owner thereof, at the address of such Registered Owner as shown on the registration records of the City, or at such other address as shall be designated in writing to the City by the Registered Owner.

Section 6: BOND REGISTRAR

The Treasurer is hereby appointed as bond registrar, transfer agent and paying agent, and is herein referred to as the "Bond Registrar." The Bond Registrar shall keep, or cause to be kept, sufficient books for the registration and transfer of the Bond. The Bond Registrar is authorized, on behalf of the City, to carry out all of the Bond Registrar's powers and duties under this Ordinance.

The Bond may be transferred only upon the books for the registration and transfer of bonds (the "Bond Register"), upon the surrender thereof to the Bond Registrar, together with a form of transfer duly executed by the Registered Owner or its attorney duly authorized in writing. Upon the transfer of the Bond, there shall be issued in the name of the transferee or transferees a new fully registered bond or bonds of any authorized denomination or denominations and of the same maturity and interest rate, and of the same aggregate principal amount, as the surrendered Bond. The new bond or bonds shall bear the same date as the date of the surrendered bond, but shall bear interest from the immediately preceding interest payment date to which interest has been paid or fully provided for.

This Section is intended to provide the system of registration required by Chapter 9, Title 57, Idaho Code.

Section 7: PRE-PAYMENT; DEFEASANCE

The City shall have the option to prepay the Bond, in whole or in part, in accordance with the prepayment provisions of the Loan Agreement.

In the event that money and/or government obligations, maturing or having guaranteed redemption prices at the option of the owner at such time or times and bearing interest to be earned thereon in such amounts as are sufficient (together with any resulting cash balances) to redeem and retire part or all of the Bond in accordance with its terms, are hereafter irrevocably set aside in a special account and pledged 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 the Bond so provided for, and the Bond and interest accrued thereon shall then 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 the Bond and interest accrued thereon shall no longer be deemed to be outstanding hereunder.

Section 8: FUNDS AND ACCOUNTS – REDEMPTION OF REFUNDED BOND

A. Establishment of Funds and Accounts. The following funds and accounts are created or confirmed with respect to the Bond.

1. Bond Fund, to be held by the City.

2. Cost of Issuance Fund, to be held by the Trustee.

3. Escrow Fund, to be held by the Escrow Agent.

4. Reserve Fund, to be held by the City.

5. Revenue Fund, to be held by the City.

B. Delivery of Bond; Application of Proceeds. The Trustee is hereby instructed to receive payment therefor in accordance with the terms of this Ordinance and deposit the proceeds of sale as follows:

1. A portion of the proceeds of sale of the Bond, as shall be designated by Written Certificate of the City, shall be deposited in the Cost of Issuance Fund to be used as provided in the Loan Agreement.

2. Accrued interest on the Bond from its date to the date of delivery, if any, shall be deposited into the Bond Fund.

3. The remaining proceeds of sale of the Bond shall be deposited into the Escrow Fund for the redemption of the Refunded Bonds.

C. Approval of Escrow Agreement; Deposits into Escrow Fund.

1. The Escrow Agreement, in substantially the form set forth in Exhibit "D" which is annexed hereto and by reference incorporated herein, with such changes, omissions, insertions, and revisions as the Mayor shall approve, is hereby authorized, and the Mayor and Clerk shall sign such Escrow Agreement, which signature shall evidence such approval. The Mayor and the Clerk are, and each of them is, hereby authorized, and the Mayor and Clerk shall sign such Escrow Agreement, which signature shall evidence such approval. The Mayor and the Clerk are, and each of them is, hereby authorized to do or perform all such acts as may be necessary or advisable to comply with the Escrow Agreement and to carry the same into effect.

2. The portion of the proceeds of the sale of the Bond specified in Section 8B hereof, together with other funds of the City as shall be specified in a Written Certificate to be filed with the Escrow Agent at the time of the delivery of the Bond, if any, shall, simultaneously with the delivery of the Bond be invested or reinvested (except for any amount to be retained as cash) and the obligations in which such moneys are so invested and any remaining cash shall be deposited in trust with the Escrow Agent in accordance with the provisions of the Escrow Agreement.

D. Redemption of Refunded Bonds; Pledge, Etc. of Escrow Fund.

1. The Refunded Bonds are hereby irrevocably called for redemption on March 1, 2013. Notice of such redemption shall be given as provided in Ordinance No. 778, adopted on April 2, 2001, pursuant to which the

Refunded Bonds were issued. The Refunded Bunds are being redeemed at a redemption price of par plus accrued interest to the date of redemption.

2. Moneys in the Escrow Fund shall be utilized exclusively for the purpose of (i) paying the interest on the Refunded Bonds on March 1, 2013; and (ii) on March 1, 2013, paying and redeeming the outstanding Refunded Bonds in full, principal, and interest.

3. Moneys in the Escrow Fund shall be invested, until needed for the purposes of the Escrow Fund, in cash and Government Obligations, as permitted in the Escrow Agreement. It is hereby found and determined by the City, pursuant to Section 57-504, Idaho Code, that moneys in the Escrow Fund, together with other funds of the City pledged to the payment of the Refunded Bonds, will be sufficient to pay, when due, pursuant to stated maturity or call for redemption, the principal of and interest due and to become due on the Refunded Bonds, and provision has been made in the Escrow Agreement for the refunding of the Refunded Bonds.

4. Any moneys remaining in the Escrow Fund and not needed for refunding of the Refunded Bonds shall be applied to pay any costs of issuance of the Bonds that remain unpaid, if any, and any moneys remaining thereafter may be used by the City for any lawful purpose.

5. It is hereby found and determined that, upon compliance by the City and the Escrow Agent with the foregoing provisions of this Section 8(D), adequate provision shall have been made for the payment of the Refunded Bonds.

E. Revenue Fund. There has heretofore been created a special fund known as the "City of Hailey Sewer Revenue Fund" (the "Revenue Fund"), which shall be maintained by the Treasurer and into which the Revenue of the System shall be deposited forthwith upon its receipt.

The Revenue of the System shall be used for payment of the following obligations in the following order of priority:

1. First Charge and Lien: the costs of Operation and Maintenance Expenses;

2. Second Charge and Lien: the principal of and interest on the Bond and any Additional Bonds, by payment into the Bond Fund; and

3. To administer surplus funds. Funds remaining in the Revenue Fund, after having been applied to the purposes provided in this Ordinance, shall constitute surplus funds and may be used for the purposes set forth in Section 8(I) of this Ordinance.

F. Bond Fund. There has heretofore been created a special fund known as the "City of Hailey Sewer Revenue Bond Fund" (the "Bond Fund"), into which shall be deposited from Net Revenues, the following described revenues:

1. Each semiannual installment of interest and each annual installment of principal payable on the Bond shall be payable into the Bond Fund from the Revenue Fund not less than seventeen (17) days prior to each payment date, and paid from the Bond Fund to the Trustee for the Registered Owner not less than fifteen (15) days before each payment date. The moneys herein allocated shall be used solely to pay currently maturing installments of principal of and interest on the Bond.

2. Interest earnings on deposits in the Bond Fund shall remain in the Bond Fund to be used for the purposes of the Bond Fund.

G. Reserve Fund.

1. Deposits. There is hereby created a special fund known as the "City of Hailey Sewer Revenue Bond Debt Service Reserve Fund" (the "Reserve Fund"), which shall be maintained by the Treasurer so long as the Bond remains outstanding, into which shall be deposited, from amounts in the reserve funds established for the Refunded Bond and, to the extent necessary, from other funds of the City, the amount of the Reserve Requirement, which amount shall be maintained as a debt service reserve fund for the Bond until the Bond has been paid in full.

2. Deficiencies or Withdrawals. Whenever any moneys are withdrawn from the Reserve Fund to pay the principal of or interest on the Bond, or if a deficiency exists therein, the amount so withdrawn or the amount of such deficiency shall be restored by deposits from Net Revenues, as soon as possible, but not later than one (1) year from the date of the drawing, until the full amount of the Reserve Requirement has been restored.

H. Cost of Issuance Fund. There is hereby established in the hands of the Trustee a separate fund designated as the "Cost of Issuance Fund." At the time of the delivery of the Bond, the City shall deposit into the Cost of Issuance Fund such amount as shall be required to pay the reasonable and necessary costs of issuance of the Bond. Moneys in the Cost of Issuance Fund shall be used for the payment of costs of issuance of the Bond. Any moneys remaining in the Cost of Issuance Fund on the date of the full and final payment of all costs of issuance of the Bond shall be transferred to the City and deposited into the Bond Fund.

I. Surplus Funds. Funds remaining in the Revenue Fund after having been applied to or designated funds for the purposes provided in Section 8D of this Ordinance shall constitute surplus funds and may be used for any of the following purposes:

1. To pay the costs of unusual or extraordinary maintenance of or repair to the System;

2. To pay the principal of and interest on any subordinate lien obligations which may have been issued to provide sewer facilities in or for the City;

3. To improve, extend, enlarge, or replace any sewer facilities;

4. To acquire or construct additional sewer facilities in or for the City;

5. To prepay the principal, interest, and any costs of the Bond; and

6. For any other lawful purpose.

Section 9: ADDITIONAL BONDS OR OTHER OBLIGATIONS

Additional Bonds or other obligations payable from Net Revenues on a parity with (but not superior to) the Bond may be issued by the City upon compliance by the City with provisions for additional parity debt set forth in the Loan Agreement.

Section 10: INVESTMENTS

Surplus funds in any of the funds set forth in this Ordinance may be invested in securities as permitted by law.

Section 11: GENERAL COVENANTS

For the protection and security of the Bond, it is covenanted and agreed to and with the Registered Owner of the Bond from time to time, that the City will perform the following covenants:

A. Operate System. It will 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.

B. Good Repair. It will operate, maintain, preserve, and keep the System and every part hereof in good repair, working order, and condition.

C. Preserve Security. It will preserve and protect the security of the Bond and the rights of the Registered Owner thereof.

D. Collect Revenues. It will collect and hold in trust the revenues and other funds pledged to the payment of the Bond and apply such revenue or other funds only as provided in this Ordinance.

E. Service Bond. It will pay and cause to be paid punctually the principal of the Bond and the interest thereon on the date or dates and at the place or places and in the manner provided in the Bond, and in accordance with this Ordinance.

F. Pay Claims. It will 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, prior or superior to the lien of the Bond or which might impair the security of the Bond, to the end that the priority and security of the Bond shall be fully preserved and protected.

G. Encumbrances. It will not mortgage or otherwise 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 revenues for the payment of the principal of and interest on the Bond, nor which would otherwise impair or impede the rights of the Registered Owner of the Bond with respect to such revenues of the operation of the System without provisions for the retirement of the Bond then outstanding from the proceeds thereof.

H. Insurance. It will 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 it and the Registered Owner of the Bond 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 the Bond issued under this Ordinance.

I. Fidelity Bonds. It will 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 revenues therefrom.

J. Engineers. It will 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, or betterments as shall be required from time to time, all reports, estimates, and recommendations of such consulting engineers to be filed with the Clerk and furnished to the Registered Owner of the Bond issued hereunder, upon request.

K. Accounts. It will 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.

L. Delinquencies. It will not furnish sewer service to any customer whatsoever free of charge, and it shall not later than sixty (60) days after an account becomes delinquent, take such legal action as may be reasonable to enforce collection of any collectible delinquent account.

Section 12: SPECIAL COVENANTS

The City further covenants and agrees:

A. In accordance with Section 149(a) of the Internal Revenue Code of 1986, as amended (the "Code"), the Bond, and any serial bonds to which they may be converted, shall be issued and remain in fully registered form in order that interest thereon be excluded from gross income of the owner or owners for federal income tax purposes. The City covenants and agrees that it will take no action to permit the Bond, or any serial bonds to which it may be converted, to be issued in or converted to bearer or coupon form.

B. None of the proceeds of the Bond will be used, directly or indirectly, (i) to make or finance loans to persons or (ii) in any trade or business carried on by any person (other than as a member of the general public). For purposes of the preceding sentence, the term "person" does not include a government unit other than the United States or any agency or instrumentality thereof, and the term "trade or business" means any activity carried on by a person other than a natural person. The City further covenants and agrees to take no action which would cause the Bond to become a "private activity bond," nor will it omit to take any action necessary to prevent the Bond from becoming a "private activity bond," within the meaning of Section 141 of the Code.

C. The Mayor, Clerk, and Treasurer, and other appropriate officials of the City, or any one or more of such officials, as may be appropriate, are each hereby authorized and directed to execute, on behalf of the City, such certificate or certificates as shall be necessary to establish that the Bond is not an "arbitrage bond" within the meaning of Section 148 of the Code and the Treasury Regulations promulgated thereunder, and to establish that interest on the Bond is not and will not become includable in the gross income of the Registered Owner of the Bond under the Code and applicable regulations. The City covenants and agrees that no use will be made of the proceeds of the Bond, or any funds of the City which may, pursuant to Section 148 of the Code and applicable regulations, be deemed to be proceeds of the Bond, which would cause the Bond to become an "arbitrage bond" within the meaning of Section 148 of the Code. The City further covenants to comply throughout the term of the Bond with the requirements of Section 148 of the Code and the regulations promulgated thereunder in order to prevent the Bond from becoming an "arbitrage bond."

D. The City will comply with the information reporting requirements of Section 149(e) of the Code.

E. None of the proceeds of the Bond will be used to reimburse the City for capital expenditures made prior to the date of delivery of the Bond unless the City, not later than 60 days after the payment of such expenditure, shall have adopted an official intent resolution as provided by Section 1.150-2 of the Treasury Regulations.

Section 13: LOAN AGREEMENT

The Loan Agreement, substantially in the form annexed hereto as Exhibit "C," is hereby approved. The Mayor and City Clerk, or such officer's designee, are each hereby authorized and directed, on behalf of the City, to execute and attest, respectively, and to deliver the Loan Agreement; provided, however, that (i) the term of the Loan Agreement shall end no later than September 15, 2021; (ii) the principal amount set forth in the Loan Agreement shall not exceed $2,580,000; and (iii) the true interest cost on the Bond shall not exceed 3.50%. The sale of the Bond to the Authority in accordance with the Loan Agreement is hereby approved. The City shall comply with all terms and provisions of the Loan Agreement, and, in the event that any provision of this Ordinance or the Bond is inconsistent with the provisions of the Loan Agreement, the provisions of the Loan Agreement shall control.

Section 14: AMENDMENTS

A. The City from time to time and at any time may adopt an ordinance or ordinances supplemental hereto, which ordinance or ordinances thereafter shall become a part of this Ordinance, for any one or more of 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 interest of the Registered Owner of the Bond, 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 provisions contained in this Ordinance, or any ordinance authorizing future 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 Owner of the Bond.

Any such supplemental ordinance may be adopted without the consent of the Registered Owner of the Bond at any time outstanding, notwithstanding any of the provisions of subsection B of this Section.

B. With the consent of the Registered Owner of not less than 75% in aggregate principal amount of the Bond at the time outstanding, the Council may adopt 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 maturities of the Bond, or reduce the rate of interest thereon, or extend the time of payments of interest from their due date, or reduce the amount of the principal thereof, or reduce any premium payable

on the redemption thereof, if applicable, without the consent of the Registered Owner of the Bond so affected; or

2. Reduce the aforesaid percentage of the Registered Owner required to approve any such supplemental ordinance.

It shall not be necessary for the consent of the Registered Owner 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 the Registered Owner of the Bond outstanding hereunder shall thereafter be determined, exercised, and enforced thereunder, subject in all respects to such modification 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. Any bond executed and delivered after the execution of any supplemental ordinance adopted 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 Registered Owner of the Bond then outstanding, upon surrender for cancellation of the Bond.

Section 15: VALIDITY OF ISSUANCE

The Bond is issued pursuant to the Idaho Revenue Bond Act, being Idaho Code Sections 50-1027 through 50-1042. This recital is conclusive evidence of the validity of the Bond and the regularity of its issuance.

Section 16: REGISTERED OWNER'S REMEDIES - RECEIVER

By action or suit in equity, the Registered Owner or subsequent Owner of the Bond may, in the event of a material violation of any of the foregoing covenants, cause the appointment of a receiver, which receiver may enter and take possession of the System and any Net Revenues for the payment of the Bond, prescribe fees to be derived from the System, and collect, receive, and apply all Net Revenues of other moneys pledged for the payment of the Bond in the same manner as the City might do in accordance with the obligations of the City. In addition, the Registered Owner shall have the remedies set forth in the Loan Agreement.

Section 17: ORDINANCE A CONTRACT

The provisions of this Ordinance shall constitute a contract between the City and the Registered Owner so long as the Bond hereby authorized remains unpaid.

Section 18: 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 in this Ordinance and shall in no way affect the validity of the other provisions of this Ordinance or of the Bond.

Section 19: REPEALER

All other ordinances or parts thereof, to the extent inconsistent herewith, are hereby repealed and shall, to the extent of such inconsistency, have no further force or effect.

Section 20: AUTHORIZATION

The Mayor, City Clerk, and City Treasurer, or any one of such officers, as may be appropriate to the circumstances, are hereby authorized to execute, on behalf of the City, the Bond and all such additional documents as may be necessary to effect the sale and delivery of the Bond.

Section 21: PUBLICATION

This Ordinance, or a summary thereof in compliance with Section 50-901A, Idaho Code, substantially in the form annexed hereto as Exhibit "A," shall be published once in the official newspaper of the City, and shall take effect immediately upon passage, approval, and publication.

DATED this 19th day of November, 2012.

CITY OF HAILEY
Blaine County, Idaho

ATTEST:

By_____
Mayor

_____
City Clerk

(S E A L)

[Form of Bond]

UNITED STATES OF AMERICA

Registered
No. One

Registered
$_____

STATE OF IDAHO

COUNTY OF BLAINE

CITY OF HAILEY
SEWER REVENUE REFUNDING BOND, SERIES 2012

THE CITY OF HAILEY, Blaine County, Idaho (the "City"), for value received, promises to pay from the special fund hereinafter described and in the manner hereinafter set forth, and not otherwise, to THE IDAHO BOND BANK AUTHORITY (the "Authority"), as the registered owner hereof, the principal sum of

_____ AND 00/100 DOLLARS

($_____), together with interest on the unpaid balance at the rate of _____ percent (____%) per annum. Said principal and interest shall be payable in accordance with the following schedule:

Payment Date	Principal	Interest	Total Payment

Both principal of and interest on this Bond are payable in lawful money of the United States of America to the registered owner hereof whose name and address shall appear on the registration books of the City maintained by the City Treasurer (the "Bond Registrar"). Interest shall be paid to the registered owner whose name appears on the Bond Register on the fifteenth day next preceding the interest payment date, at the address appearing on the Bond Register, and shall be paid by check or draft of the Bond Registrar mailed to such registered owner on the due date at the address appearing on the Bond Register, or at such other address as may be furnished in writing by such registered owner to the Bond Registrar. Principal shall be paid to the registered owner upon presentation and surrender of this Bond at the principal office of the Bond Registrar, on or after the date of maturity or prior redemption.

The City has reserved the right, at its option, to prepay the principal amount outstanding, as provided in the Loan Agreement dated as of December 1, 2012, between the City and the Authority (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 for the purpose of paying the costs of currently refunding the City's outstanding sewer revenue bonds, pursuant to Idaho Code, Title 50, Chapter 10 and Title 57, Chapters 2, 5, and 9, and also pursuant to Ordinance No. 1114 of the City, adopted on November 19, 2012 (the "Bond Ordinance"). This Bond further evidences the City's payment obligations under the Loan Agreement.

This Bond is issued pursuant to and in full compliance with the Constitution and statutes of the State of Idaho, particularly Chapter 10 of Title 50, and Chapters 2, 5, and 9 of Title 57, Idaho Code, and proceedings duly adopted and authorized by the Mayor and Council of the City acting for and on behalf of the City, more particularly the Bond Ordinance, for the purpose of providing funds to refund and redeem certain outstanding bonds of the City.

This Bond creates a first lien and charge upon the Net Revenues of the System on parity of lien with any additional bonds or other obligations which may hereafter be issued on a parity with the Bond in accordance with the provisions of the Bond Ordinance, and superior to all other charges of any kind or nature. This Bond is a limited obligation of the City and is payable as to principal and interest solely from a special fund created by the Bond Ordinance and designated "City of St. Anthony Sewer Revenue Bond Fund" (the "Bond Fund"). For a more particular description of said Bond Fund, the revenues to be deposited therein, and the nature and extent of the security afforded thereby, reference is made to the provisions of the Bond Ordinance pursuant to which this Bond is issued, and such Bond Fund will be maintained.

This Bond is transferable by the registered owner hereof in person, or by his attorney duly authorized in writing, upon presentation and surrender of this Bond at the office of the Bond Registrar. Upon such transfer, a new Bond, of the same denomination, maturity, and interest rate, will be issued to the transferee, in exchange therefor.

Reference is hereby made to the Bond Ordinance for the covenants and declarations of the City and other terms and conditions under which this Bond has been issued. The covenants contained herein and in the Bond Ordinance may be discharged by making provision, at any time, for the payment of the principal of and interest on this Bond in the manner provided in the Bond Ordinance.

The City and the Bond Registrar may deem and treat the registered owner hereof as the absolute owner hereof for the purpose of receiving payments of principal hereof and interest due hereon and for all other purposes, and neither the City nor the Bond Registrar shall be affected by any notice to the contrary.

IT IS HEREBY CERTIFIED AND DECLARED 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, and that the issuance of this Bond do not violate any Constitutional, statutory, or other limitation upon the amount of bonded indebtedness that the City may incur.

IN WITNESS WHEREOF, the City of Hailey, Blaine County, Idaho, has caused this Bond to be executed by the manual signature of the Mayor, countersigned by the manual signature of its Treasurer, and attested by the manual signature of its Clerk, and the seal of the City to be impressed hereon, as of this 20th day of December, 2012.

CITY OF HAILEY
Blaine County, Idaho

_____
Mayor

_____
City Treasurer

ATTEST:

_____
City Clerk

(SEAL)

LOAN AGREEMENT

Between

IDAHO BOND BANK AUTHORITY

And

CITY OF HAILEY, IDAHO

Dated as of December 1, 2012

Relating to

Idaho Bond Bank Authority
Revenue Bonds
Series 2012D

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LOAN AGREEMENT

THIS LOAN AGREEMENT, dated as of December 1, 2012, by and between the CITY OF HAILEY, 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 April 17, 2001, the Municipality has previously issued its Sewer Revenue Bonds, Series 2001, (the "Prior Bonds") to finance improvements to its Sewer system and the Municipality intends to issue its Sewer Revenue Refunding Bond, Series 2012 (the "Municipal Bond") for the purpose of currently refunding the Prior Bonds and refinancing certain Sewer facilities, 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 Idaho Bond Bank Authority Revenue Bonds, Series 2012D (the "Bonds");

WHEREAS, pursuant to Ordinance No. 1114 adopted on November 19, 2012 (the "Bond Ordinance"), the Municipality approved this Loan Agreement to issue the Municipal Bond to evidence a Loan to refinance the Prior Bonds,; 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 trustee has been succeeded by 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 Nineteenth Supplemental Trust Agreement dated as of December 1, 2012 (the "Nineteenth 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 Nineteenth 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 invoice 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 or Municipality 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 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 Bonds 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, Idaho, a municipal corporation 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 any 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 Bonds" means the Municipality's Sewer Revenue Bonds, Series 2001.

"Prior Obligations" means the obligations, if any, specified in Schedule 1 attached hereto.

"Project" means the Municipality's sewer facilities as described in Exhibit A hereto being financed ~~as~~ or refinanced by the Municipal Bonds.

"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 reserve fund for the Loan in the amount of the Reserve Requirement and to be funded from funds of the Municipality if required as provided in Section 4.4 hereof. The Reserve Fund shall not secure the Parity Obligations.

"Reserve Requirement" shall mean the monies to be held by the Municipality in the Reserve Fund to secure payment of debt service on the Loan and the Municipal Bond which shall be an amount equal to the amounts required under Section 4.4 hereof, provided that said amount shall not exceed the lesser of: (i) 10% of the proceeds of the Loan, (ii) maximum annual principal and interest on the Loan, or (iii) 125% of average annual principal and interest on the Loan.

"Revenue Fund" means the fund so designated 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 obligations of the Municipality that are subordinate in payment to the Repayment Installments and to the Parity Obligations Payments.

"System" means all of the Municipality's Sewer system, and its Sewer facilities and properties now owned or hereafter acquired, whether situated within or without Municipality 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 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 the refinancing of the facilities described in Exhibit A hereto and the redemption of the Prior Bonds. 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 its Federal Tax Exemption 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 refunding the "Prior Bonds", which financed 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 and as described in Schedule 1 hereto and the Municipality will contribute funds to the Project to the extent described by Schedule 1. 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 and other legally available funds of the Municipality to be appropriated as needed to make the payments required under this Agreement and the Municipal

Bond, and 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 Sections of 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 debt service on the Bonds 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 debt service on the Bonds, at least ten (10) days before the scheduled debt service payment date of the Bonds, 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 and other legally available funds of the Municipality to be appropriated as 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 hereby established 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 the Fiscal Year 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;

(d) As an alternative to the audit report requirement in 4.3(c), the Municipality may utilize a report of the Consulting Engineer 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. In determining whether Parity Debt may be issued, the Consulting Engineer shall consider any probable increase (but not decrease) in Operation and Maintenance Costs, and there may be added to such System Net Revenues an allowance for net revenues from any improvements to the System to be made with the proceeds of such Parity Debt and also for net revenues from any improvements to the System which have been made from money from any source but which, during all or any part of such Fiscal Year, were not in service, all in an amount equal to 75% of the estimated additional average annual net revenues to be derived from each such improvement for the first 36 month period in which each such improvement is in operation.

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 shall be established a Reserve Fund held by the Municipality funded from funds of the Municipality in an amount equal to the Reserve Requirement to be maintained as a debt service reserve fund for the Loan as evidenced by the Municipal Bond. Such Reserve Fund shall secure only the Municipal Bond 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 shall establish and maintain a Rate Stabilization Account. 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 it 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 following Fiscal Year at least equal to 1.25 times the Annual Bond Debt Service due in that Fiscal Year. The Municipality will demonstrate its compliance with the provisions of this Section 4.6 by providing a report to the Authority and the Trustee, if any, at the time of delivery of the Municipality's year-end audit that the Municipality is not out of compliance with Section 5.11. This report will demonstrate the Municipality's compliance with this covenant, or the methods by which the Municipality intends to achieve compliance with this covenant.

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 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 and the Municipal Bond. Without limiting the generality of the foregoing, the Municipality and the Authority agree that there shall be paid from time to time 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 Municipal Bond, determined as specified in the Tax Certificate, including (i) treating as the yield on the Municipal Bond the yield on the 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 Bonds. 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 Bond, 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 F.

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 Continuing Disclosure. The Municipality hereby covenants and agrees to comply with the continuing disclosure requirements for the Bonds as promulgated under Rule 15c2-12, as it may from time to time hereafter be amended or supplemented, including those requirements

set forth below. Notwithstanding any other provision of this Agreement, failure of the Municipality to comply with the requirements of Rule 15c2-12 applicable to the Bonds, as it may from time to time hereafter be amended or supplemented, shall not be considered an Event of Default hereunder or under the Trust Agreement; however, any Bondholder or beneficial owner of any Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Municipality to comply with its obligations pursuant to this Section 5.9.

(a) Definitions. In addition to the definitions set forth in the Trust Agreement, which apply to any capitalized term used in this Section unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Municipality pursuant to, and as described in, Sections 5.9(b) and 5.9(c).

"Beneficial Owner" shall mean any person who has the power, directly or indirectly, to vote or consent with respect to, or dispose of ownership of, any of the Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

"Disclosure Representative" shall mean the Treasurer of the Municipality or his or her designee, or such other officer or employee as the Municipality shall designate in writing to the Trustee from time to time.

"Dissemination Agent" shall mean the Trustee, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Municipality and which has filed with the Trustee a written acceptance of such designation.

"EMMA" shall mean the Electronic Municipal Market Access System of the Municipal Securities Rulemaking Board as provided for by the SEC, found at www.emma.msrb.org.

"Listed Events" shall mean any of the events listed in Section 5.9(d) hereof.

"Owner" means an owner of the Bonds and includes Beneficial Owners.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Repository" shall mean the Municipal Securities Rule Making Board ("MSRB") or any other entity designated or authorized by the SEC to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the SEC, filings with the MSRB are to be made through EMMA.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"SEC" means the Securities and Exchange Commission.

(b) Provision of Annual Reports.

(i) The Municipality shall, with the assistance of the Dissemination Agent, not later than six months after the end of the Municipality's fiscal year (presently September 30), commencing with the report for the 2012 Fiscal Year, provide to the Repository and the Authority an Annual Report which is consistent with the requirements of Section 5.9(c) hereof. The filing shall be transmitted by the Dissemination Agent to the Repository and each Annual Report must be submitted in electronic format, accompanied by such identifying information as is prescribed by the Repository, and may include by reference other information as provided in Section 5.9(c) hereof; provided that the audited financial statements of the Municipality may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Municipality's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5.9(d)(vii).

(ii) Not later than fifteen (15) Business Days prior to the date specified in subsection (b)(i) for providing the Annual Report to the Repository, the Municipality shall provide the Annual Report, to the Dissemination Agent, to the Trustee (if the trustee is not the Dissemination Agent) and to the Authority. If by fifteen (15) Business Days prior to the date specified in subsection (b)(i), the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the Municipality to determine if the Municipality is unable to provide or cause to be provided the Annual Report to the ~~Repository~~ Dissemination Agent in compliance with the first sentence of this subsection (ii). Failure to provide the Annual Report to the Dissemination Agent by said date may subject the Municipality to late fees in the amount as listed on Exhibit E 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 provisions.

(iii) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the Repository by the date required in subsection (i) the Dissemination Agent shall send a notice to the Repository in substantially the form as Exhibit D2 attached.

(iv) The Dissemination Agent (currently the Trustee) shall:

(1) determine each year prior to the date for providing the Annual Report the name and address of the Repository; and

(2) file a report with the Municipality, the Authority and the Trustee (if the Dissemination Agent is not the Trustee) certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided to the Repository.

(c) Content of Annual Reports. The Municipality's Annual Report shall contain or include by reference the following:

(i) The audited financial statements for the Municipality for the most recently ended fiscal year, currently prepared, to the extent feasible, in substantial conformance with generally accepted accounting principles applicable from time to time to governmental entities, with any permitted exception and an adopted budget for the then current fiscal year.

(ii) An Annual Report in the form attached hereto as Exhibit D1 as to outstanding debt, litigation, compliance with regulatory matters and related items.

(d) Reporting of Significant Events.

(i) Pursuant to the provisions of this Section 5, the Municipality shall give or cause to be given, notice 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:

(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 Borrower shall give or cause to be given, notice 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.

(iii) The Dissemination Agent shall, within one (1) Business Day of obtaining actual knowledge of the occurrence of any of the Listed Events, contact the Disclosure Representative, inform such person of the event, and request that the Municipality promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (vii). The Dissemination Agent shall have no duty or obligation to determine whether such Listed Events reflect financial difficulty or to determine the materiality of such Listed Events when in forming the Disclosure Representative of such Listed Event.

(iv) Whenever the Municipality obtains knowledge of the occurrence of a Listed Event under (ii) whether because of a notice from the Dissemination Agent pursuant to subsection (iii) or otherwise, the Municipality shall as soon as possible determine if such event would be material under applicable federal securities laws.

(v) If the Municipality has determined that knowledge of the occurrence of a Listed Event under (ii) would be material under applicable federal securities laws, the Municipality shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (vii).

(vi) If in response to a request under subsection (iii), the Municipality determines that the Listed Event would not be material under applicable federal securities laws, the Municipality shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (vii).

(vii) If the Dissemination Agent has been instructed by the Municipality to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Repository.

(e) Termination of Reporting Obligation. The Municipality's obligations under this Disclosure Agreement 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 Bonds, the Municipality shall give notice of such termination in the same manner as for a Listed Event under Section 5.9(d)(vii).

(f) Dissemination Agent. The Municipality may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement and shall pay the fees and costs thereof, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Municipality pursuant to this Disclosure Agreement. The initial Dissemination Agent shall be the Trustee. It is understood and agreed that any information that the Dissemination Agent may be instructed to file with the Municipal Securities Rulemaking Board and the Repository shall be prepared and provided to it by the Municipality. The fact that the Dissemination Agent or any affiliate thereof may have any fiduciary or banking relationship with the Municipality shall not be construed to mean that the Dissemination Agent has actual knowledge of any event or condition except as may be provided by written notice from the Municipality as the Authority.

(g) Amendment; Waiver. Notwithstanding any other provision of this Section 5.9, the Municipality and the Authority (or upon assignment of this Loan Agreement by the Authority, the Trustee) may amend this Section 5.9 (and the Trustee shall agree to any amendment so reasonably requested by the Municipality, to the extent that such amendment does not adversely affect the Trustee's or the Dissemination Agent's rights, protections or duties), and any provision of this Section 5.9 may be waived, provided that the following conditions are satisfied:

(i) If the amendment or waiver relates to the provisions of Section 5.9(b)(i), Section 5.9(c), or Section 5.9(d)(i) or (ii), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(ii) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(iii) The amendment or waiver either (1) is approved by the Owners of the Bonds in the same manner as provided in the Trust Agreement for amendments to the Trust Agreement with the consent of Owners, or (2) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Owners and Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Section 5.9, the Municipality shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Municipality. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (1) notice of such change shall be given in the same manner as for a Listed Event under Section 5.9(d)(vi), and (2) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

(h) 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 Report 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 Report 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 Report or notice of occurrence of a Listed Event.

(i) Duties, Immunities and Liabilities of Trustee and Dissemination Agent. The Dissemination Agent (if other than the Trustee or the Trustee in its capacity as Dissemination Agent) shall have only such duties as are specifically set forth in this Section 5.9, and the Municipality agrees to indemnify and save the Dissemination Agent,

its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees and expenses) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the Municipality under this Section shall survive resignation or removal of the Dissemination Agent and payment of this Loan Agreement. The Dissemination Agent shall have the same rights and protections as afforded to it in its role as trustee under the Trust Agreement.

(j) 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.

(k) Beneficiaries. This Section 5.9 shall inure solely to the benefit of the Municipality, the Authority, the Trustee, the Dissemination Agent, the Participating Underwriters, Beneficial Owners and Owners from time to time of the Bonds, 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 subsection 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 subsidiary 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 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.

Section 5.19 Delivery of Closing Documents. The Municipality agrees to execute and deliver on the Closing Date the certificates 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.

IN WITNESS WHEREOF, the City of Hailey, Idaho has caused this Loan Agreement to be executed in its name and its seal, if any, to be hereunto affixed by its duly authorized 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, IDAHO

By _____
Mayor

[SEAL]

Attest:

_____
City Clerk

IDAHO BOND BANK AUTHORITY

By _____
Executive Director

SCHEDULE 1: CITY OF HAILEY, IDAHO

Prior Bonds Date:	April 17, 2001
Prior Bonds Original Par Amount:	Sewer Revenue Bonds, Series 2001 $4,500,000.
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:	Prior Bonds (to be refunded),
Prepayment Provisions:	The Repayment Installments coming due on or prior to September 15, 2022, are not subject to prepayment. The Repayment Installments coming due on and after September 15, 2023, 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, 2022, 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 S. Hailey, ID 83333
Disbursement of Loan:	1. $_____ from the proceeds of the Municipal Bond to pay off the Prior Bonds. 2. $_____ to the Series 2012D Cost of Issuance Account held by the Trustee under the Trust Agreement to pay various costs of issuance on the Series 2012D Bonds. 3. $_____ representing the Authority Fee shall be paid to the Authority from the Series 2012D Cost of Issuance Account. 4. $_____ to the Municipality for costs of issuance. 5. To the Municipality $_____ as a rounding amount.
Reserve Fund:	Municipality to transfer $_____ of funds held by the Municipality for a total of $_____ as provided in Section 4.4 of this Loan Agreement.

EXHIBIT A

Description of the Project

Project

The Project consists of the issuance of the Municipality's Sewer Revenue Refunding Bond, Series 2012, in the principal amount of $_____, for the purpose of refunding the Municipality's outstanding Prior Bonds which originally financed all or a portion of the costs of design and construction of various improvements, for the sewer system of the City of Hailey, Idaho.

EXHIBIT B

Repayment Installments and Repayment Installment Dates

DATE**	PRINCIPAL	COUPON	INTEREST	DEBT SERVICE
		(to come)		

Note: ** Payments must be transmitted to the Trustee 15 days prior to the payment dates listed.

EXHIBIT C

Municipality Closing Documents

a. Bond Ordinance authorizing the Municipal Bond, and execution of the Loan Agreement.
b. Loan Agreement, dated as of December 20, 2012 between the Municipality and the Authority.
c. Bond of the Municipality.
d. Loan Application.
e. Opinion of Bond Counsel.
f. Tax Certificate of Municipality.
g. General Certificate.
h. Signature and No Litigation Certificate.
i. Receipt for Bond.
j. IRS Form 8038-G.
k. Receipt for Proceeds of Bond.
l. Cash Flows

EXHIBIT D1

Certificate Regarding Annual Financial Information

The undersigned on behalf of the City of Hailey, Idaho (the "Municipality") hereby certifies in connection with the Loan Agreement dated as of December 1, 2012 between the Municipality and the Idaho Bond Bank Authority (the "Authority") that:

1. The attached financial statements are the true and correct audited financial statements of the Municipality for the Municipality's fiscal year ended September 30, ____ (the "Prior Fiscal Year").

2. Unless already stated in the attached financial statements, the debt, and the amount of debt, outstanding against the sewer system of the Municipality (including any debt to the Authority), as of the end of the Prior Fiscal Year, is as follows:

   _____.

   (Attach separate sheet if needed)

3. Except as stated below or on a separate attached sheet, there is not now, and has not been during the Prior Fiscal Year: (1) any default on the Loan Agreement or other debt of the Municipality; (2) any litigation filed against the Municipality challenging the validity of the Loan Agreement; (3) any citations of non-compliance by any regulatory authority with respect to the System; or (4) failure to comply with the System rates and charges requirement of Section 5.11 of the Loan Agreement, taking into account any transfers from the Rate Stabilization Account:

   _____.

   (Attach separate sheet if needed)

4. There are, and have been during the Prior Fiscal Year, no material "Listed Events," as referenced in Section 5.9(d) of the Loan Agreement.

Dated this _____ day of _____, 20__.

CITY OF HAILEY, IDAHO

By _____

Its: _____

(Treasurer or Finance Director)

EXHIBIT D2

Notice to Repository of Failure to File Annual Report

Name of Municipality: City of Hailey, Idaho

Name of Bond Issue: Idaho Bond Bank Authority Revenue Bonds, Series 2012D

Date of Issuance: December 12, 2012

NOTICE IS HEREBY GIVEN that the City of Hailey, Idaho has not provided an Annual Report with respect to the above-named Bonds as required by Section 5.9 of the Loan Agreement dated as of December 1, 2012, between the Municipality and the Idaho Bond Bank Authority. [The Municipality anticipates that the Annual Report will be filed by _____.]

Dated: _____

_____
On behalf of the City of Hailey, Idaho

cc: City of Hailey, Idaho

EXHIBIT E

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

Continuing Disclosure Late Fee Scale

Due date – 3 months after:	Lesser of $7,500 or 0.50% of issued amount
3 – 6 months after due date:	Lesser of $500 or 0.20% of issued amount
6 months – 9 months after due date:	Lesser of $500 or 0.20% of issued amount
9 months – 1 year after due date:	Lesser of $500 or 0.20% of issued amount
Every 3 months after 1 year:	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 F

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 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 for 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.

Subject: FW: Fee Proposal for Refunding Escrow (City of Hailey)
Attachments: City of Hailey, Idaho - Refunding Escrow _10.2012_.pdf

From: Keith, Michael [mailto:mkeith@snwsc.com]
Sent: Thursday, November 15, 2012 1:48 PM
To: Heather Dawson; Becky Stokes
Cc: Heringer, Eric
Subject: FW: Fee Proposal for Refunding Escrow (City of Hailey)

Heather and Becky –

I hope all is well. Since we cannot redeem the City's 2001 Sewer Bonds until March 1, 2013 we will need to setup an escrow account to hold the proceeds from the Idaho Bond Bank sale to pay of the existing bonds. It is simplest if we set this up with the paying agent of the 2001 Bonds which is Wells Fargo. Attached is their fee agreement for setting up the account and performing the escrow agent duties for the 2001 Sewer Bonds to be repaid. Please review the fee agreement, sign it, and email it to Nancy Edmiston with Wells Fargo at Nancy.L.Edmiston@wellsfargo.com. If you have any questions please let me know. Also Eric and I are planning to attend the City Council meeting on Monday and just wanted to verify that the meeting will begin at 5:30.

Thanks,
Michael Keith
Assistant Vice President
Public Finance (Boise Office)
SNW

From: Nancy.L.Edmiston@wellsfargo.com [mailto:Nancy.L.Edmiston@wellsfargo.com]
Sent: Wednesday, October 31, 2012 5:29 PM
To: Keith, Michael
Subject: Fee Proposal for Refunding Escrow (City of Hailey)

Good afternoon Michael -

Thank you for the opportunity to propose our services as refunding escrow agent for the contemplated refunding of the City of Hailey, Idaho Sewer Revenue Bonds, Series 2001. Our responsive service and reputation for excellence has made us one of the leading corporate trust providers. We look forward to extending our relationship with the City of Hailey.

Our fees are presented in the attached document. If accepted, please have the City sign and return to me at the address listed below.

If Wells Fargo is selected as refunding escrow agent, please add my contact information to your working group distribution list.

Nancy L. Edmiston, Vice President
Wells Fargo Bank, National Association
Corporate, Municipal & Escrow Solutions
1300 SW 5th Avenue | 11th Floor | MAC P6101-114 | Portland, Oregon 97201
Phone: (503) 886-1367 | Facsimile: (503) 886-3300
Email: Nancy.L.Edmiston@WellsFargo.com
If you have questions regarding this proposal, please do not hesitate to contact me directly at (503) 886-1367.

Sincerely,
Nancy Edmiston

Wells Fargo Corporate Trust Services

Schedule of fees to provide refunding escrow agent services

WELLS FARGO

Refunding Escrow -
City of Hailey, Idaho Sewer Revenue Bonds, Series 2001

Acceptance Fee	$500.00

A one-time fee for our initial review of governing documents, account set-up and customary duties and responsibilities related to the closing. This fee is payable at closing.

Refunding Escrow Agent Fee	$1,000.00

For services of the agent described in the Refunding Escrow Agent Agreement. This fee is payable annually in advance per year or portion thereof and is not subject to proration in the event of early termination.

Legal Counsel Fees and Expenses	None anticipated

Wells Fargo does not anticipate hiring outside legal counsel and intends to use internal resources to review the governing documents. Should an eligibility opinion be required of in-house counsel, however, there will be a charge of $1,500. Wells Fargo reserves the right, at its sole discretion, to hire outside counsel if deemed necessary or advisable. Fees and expenses of outside legal counsel will be billed at cost. Should a legal opinion of outside counsel to the trustee be required, there may be an additional charge.

Out-of-Pocket Expenses	At cost

Out-of-pocket expenses will be billed at cost at the sole discretion of Wells Fargo.

Extraordinary Services	Market rate

Fees for services not contemplated at the time the governing documents are executed or not specifically covered elsewhere in this schedule will be determined by market rates for such services.

These services may include, but are not limited to, arbitrage rebate compliance, requisition processing in excess of two per month, tender agent services, changes to credit facilities, amendments to documents, interim bond calls, rate mode changes, physical bond transfers, rating agency questionnaires, default administration, extraordinary administrative time, and the publication of redemption or other notices. In addition, if all outstanding bonds are defeased or called in full prior to their stated maturity, or Wells Fargo's engagement is otherwise terminated prior to the stated maturity date, a termination fee may be assessed.

If Wells Fargo determines, in its sole discretion, that outside counsel is necessary or advisable in connection with an event of default, forward delivery agreement, investment agreement, mode change, change in credit facility, supplement, amendment or waiver, or similar event, counsel fees and expenses will be billed as incurred.

Assumptions

This proposal is based upon the following assumptions set forth below.
Should any of the assumptions, duties or responsibilities change, we reserve the right to affirm, modify, or rescind this proposal.

Together we'll go far

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WELLS FARGO

Refunding Escrow -
City of Hailey, Idaho Sewer Revenue Bonds, Series 2001

- Refunding escrow to be funded by Treasury Securities/SLGs;
- Cancellation and re-subscription of SLGs - $100.00 each occurrence;
- Substitutions of investment securities, if any, are limited to 4 per year, additional substitutions and trades will be billed at $50.00 per substitution or trade;
- Annual statements for escrow account provided to Issuer;
- For any third-party investments, including open market securities there will be additional administrative charges which will be negotiated separately.
- Appointment subject to review and acceptance of the final documents
- Appointment subject to receipt of requested due diligence information required by the USA Patriot Act

Terms and conditions

- Should this transaction fail to close through no fault of Wells Fargo Bank, N.A. its acceptance fee, as well as counsel fees and out-of-pocket expenses incurred by Wells Fargo Bank, N.A., may be due and payable.
- Counsel fees and expenses are payable at closing.
- Invoices outstanding for over 30 days are subject to a 1.5% per month late payment penalty.
- The fees described in this proposal are subject to periodic review and adjustment by Wells Fargo.
- Acceptance of the appointment described in this proposal is subject to compliance with the requirements of the USA Patriot Act of 2001 described below, Wells Fargo's satisfactory review of all governing documents, and the execution of the governing documents by all parties.

Important information about opening a new account

The USA Patriot Act of 2001 requires financial institutions to obtain, verify and record information to confirm the identity of the individual or entity establishing an account. For entities opening new accounts, we will ask you for documentation that may include annual reports, certified organizational documents, government issued business licenses or partnership agreements.

Accepted by:	**Submitted by:**
City of Hailey, Idaho	**Wells Fargo Bank, N.A.**
Signature	Signature
Printed name	Nancy L. Edmiston Printed name
Title	Vice President Title
Date	10/31/2012 Date

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