

REVENUE OBLIGATION LOAN AGREEMENT
CLEAN WATER STATE REVOLVING FUND

Between

SOUTH DAKOTA CONSERVANCY DISTRICT

and

CITY OF RAPID CITY, SOUTH DAKOTA

Dated as of _____, 2001

LOAN AGREEMENT

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THIS LOAN AGREEMENT dated as of _____, 2001, between the SOUTH DAKOTA CONSERVANCY DISTRICT (the "District"), a governmental agency, body politic and corporate of the State of South Dakota (the "State"), and the CITY OF RAPID CITY, SOUTH DAKOTA (the "Borrower").

W I T N E S S E T H :

WHEREAS, the District has entered into a Master Trust Indenture, dated as of January 1, 1994 (as now or hereafter amended and supplemented, the "Indenture") with The First National Bank in Sioux Falls, as Trustee (together with any successor trustee the "Trustee") pursuant to which the District will, from time to time, issue bonds for the purpose of loaning the proceeds thereof to political subdivisions in furtherance of the "Program" as defined below; and

WHEREAS, capitalized terms used but not defined herein shall have the meanings given thereto in the Indenture; and

WHEREAS, the District is authorized and empowered by the provisions of Chapters 46A-1 and 46A-2, SDCL, as amended (the "Act"), including the amendments made by Senate Bill No. 186 duly enacted into law and signed by the Governor on the 14th day of March, 1989 as an Emergency Act, and specifically pursuant to §§46A-1-30(10) and 46A-1-31 of the Act, to issue bonds at its discretion in any amount at any time for the purpose of funding all or part of a revolving fund program under the federal Clean Water Act (hereinafter defined), to be used to purchase or otherwise finance or provide for the purchase or payment of bonds or other obligations, including the refinancing of obligations previously issued or for projects previously completed and to enter into financing arrangements with such persons or public entities to secure and provide for the payment of such bonds; and

WHEREAS, the District is authorized and empowered by the provisions of the Act to pledge or assign to or in trust for the benefit of the holder or holders of such bonds those moneys appropriated by the Legislature for the purpose of funding state contributions to the Program and directing that such moneys be held and invested pursuant to a trust agreement for the payment of the principal of, premium, if any, and interest on the bonds; and

WHEREAS, the District is duly constituted as an instrumentality of the State exercising public and governmental functions under the operation, management and control of the Board of Water and Natural Resources of South Dakota (the "Board of Water and Natural Resources"), pursuant to the Act; and

WHEREAS, pursuant to the Act, the District is authorized to issue bonds and to make loans to Political Subdivisions through the purchase of Local Obligations (as defined in the Indenture); and

WHEREAS, the Clean Water Act established a state revolving fund program; and

WHEREAS, to fund the state revolving fund program, the United States Environmental Protection Agency makes annual capitalization grants to the states, on the condition that each state provide an appropriate match for such state's revolving fund; and

WHEREAS, pursuant to §46A-1-60.1, SDCL, the State has heretofore established a state water pollution control revolving fund program (the "Program") and provided that a program subfund (the "Program Subfund") be created within the water and environment fund established pursuant to §46A-1-60, SDCL, that the Program Subfund be maintained separately, and all federal, state and other funds for use in the Program be deposited into the Program Subfund, including, but not limited to, all federal grants for capitalization of a State water pollution control revolving fund under the Clean Water Act, all repayments of assistance awarded from the Program Subfund, interest on investments made on money in the Program Subfund, proceeds of discretionary bond issues allowed by §46A-1-31, SDCL, and principal and interest on loans made from the fund, that money in the Program Subfund may be used only for purposes authorized under the Clean Water Act and that the Program Subfund may be pledged or assigned by the District to or in trust for the holder or holders of the bonds of the District and may be transferred to and held by a trustee or trustees pursuant to §46A-1-39, SDCL; and

WHEREAS, §46A-1-60.2, SDCL, provides that funds from the Program shall be disbursed and administered for the purposes set forth in the Clean Water Act and according to rules enacted by the Board of Water and Natural Resources pursuant to §46A-1-65, SDCL, and the provisions of §§46A-1-60 to §46A-1-60.3, SDCL, inclusive; and

WHEREAS, loaning amounts from the Program Subfund to the Borrower to enable the Borrower to finance, refinance or reimburse itself for the costs of the Project, as herein defined, will carry out the purposes of the Clean Water Act; and

WHEREAS, pursuant to its powers under the Act, the District desires to loan to the Borrower from the Program Subfund the amount necessary to enable the Borrower to finance, refinance or reimburse itself for the costs of the Project and the Borrower desires to borrow such amount from the District subject to the terms and conditions and for the purposes set forth in this Loan Agreement; and

WHEREAS, the Borrower is authorized under applicable laws, ordinances and regulations to enter into this Loan Agreement and to issue the Borrower Bond (herein defined) for the purposes set forth herein; and

WHEREAS, the District will fund the Loan in part, directly or indirectly, with proceeds of its State Revolving Fund Revenue Bonds (the "Bonds") issued under the Indenture and in part, directly or indirectly, with funds provided by the federal Environmental Protection Agency;

NOW, THEREFORE, for and in consideration of the premises hereinafter contained, the parties hereby agree as follows:

ARTICLE I

DEFINITIONS AND RULES OF INTERPRETATION

Section 1.1. Definitions. All terms used in this Loan Agreement which are not defined herein shall have the meanings assigned to them in the Indenture unless the context clearly otherwise requires. The following terms shall have the meanings indicated below unless the context clearly requires otherwise:

"Accountant" or "Accountants" means an independent certified public accountant or a firm of independent certified public accountants to whom the Trustee makes no objection.

"Act" means Chapters 46A-1 and 46A-2, SDCL, as amended from time to time together with the administrative rules promulgated thereunder and then in effect.

"Additional Bonds" means any of the Bonds of the District other than the Series 1994A Bonds, authorized by a Series Resolution and secured by the Master Indenture.

"Administrative Expense Surcharge" means a surcharge on the Loan charged by the District to the Borrower at the rate set forth in Section 5.1, payable by the Borrower on the same dates that payments of interest on the Loan are due.

"Bond Counsel" means any Counsel acceptable to the District and the Trustee which is a nationally recognized bond counsel. A Counsel is a nationally recognized bond counsel if it has rendered a sole legal opinion in connection with the sale of state and municipal bonds (short-term issues excluded) during the two-year period preceding the date of determination. The legal opinion rendered may be on either publicly offered or privately placed bond issues. Attorneys acting only as counsel to the underwriter do not qualify.

"Bondholder" or "Holder" or "holder of Bonds" or "owner of Bonds" means the registered owner of any Bond.

"Bond Payment Date" means any date on which principal or interest or Redemption Price (as defined in the Indenture) is due and payable on any Bonds.

"Bonds" means the Series 1994A Bonds and all Additional Bonds.

"Borrower" means the entity which has entered into this Loan Agreement with the District.

"Borrower Bond" means the Local Obligation (as defined in the Indenture) issued by the Borrower to the District to evidence the Borrower's obligation to repay the principal of and pay interest and Administrative Expense Surcharge on the Loan.

"Business Day" means any day which (i) is not a Saturday or Sunday, (ii) is not a day on which banks in South Dakota are authorized or required by law to remain closed and (iii), in the

case of notices to be given to, or other actions to be taken with respect to, a Credit Enhancer, is not a day on which such Credit Enhancer is closed.

"Clean Water Act" means the Federal Water Pollution Control Act, more commonly known as the Clean Water Act (PL 92-500), as amended by the Water Quality Act of 1987 (PL 100-4), 33 U.S.C. 1251, et. seq., any subsequent amendments thereto and any other applicable statutes governing any Program funded hereunder, and includes the State Revolving Fund Program Implementation Regulations, any amendments thereof issued pursuant thereto and any other applicable regulations.

"Closing" means the date of execution and delivery of this Loan Agreement and the Borrower Bond.

"Code" means the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder or officially proposed to be promulgated thereunder.

"Collateral Documents" means the resolution authorizing the Borrower Bond and any security agreement, guaranty or other document or agreement entered into or received by the Trustee or District securing the obligations of the Borrower under this Loan Agreement and the Borrower Bond.

"Committed Amount" means the amount committed to be loaned by the District to the Borrower pursuant to Section 4.1, as such amount may be reduced pursuant to Sections 3.1, 3.2(b), 3.4 and 9.2.

"Completion Certificate" means the certificate regarding completion of the Project required by Section 3.4.

"Construction Advance" means an advance of the Committed Amount to pay costs of the Project pursuant to Section 4.1(b) or to reimburse the Borrower pursuant to Section 4.1(d) for costs of a Project not yet completed.

"Consultant" means a nationally recognized consultant or firm of consultants, or an independent engineer or firm of independent engineers, or an Accountant, which in any case is qualified and has skill and experience in the preparation of financial feasibility studies or projections for facilities similar to the Borrower's System or Project, as the case may be, selected by the Borrower and satisfactory to the Trustee and the District.

"Counsel" means an attorney duly admitted to practice law before the highest court of any state.

"Credit Enhanced," when used with reference to any Bonds or Series of Bonds, means Bonds or a Series of Bonds the payment of the principal of and interest on which is insured or guaranteed by a Credit Enhancer.

"Credit Enhancement" or "Credit Facility" means any letter of credit, insurance policy, guaranty bond or other instrument or agreement delivered to the Trustee to provide credit enhancement for a Series of Bonds (or a portion of such Series). "Credit Enhancement" or "Credit Facilities" means, collectively, all Credit Enhancement which is then in existence with respect to any outstanding Bonds; references to Credit Enhancement, Credit Facility, Credit Enhanced and Credit Enhancer shall be disregarded if no Bonds are, at such time, Credit Enhanced and shall be disregarded with respect to any Bonds which are not Credit Enhanced.

"Credit Enhancer" means, with respect to any Bonds, the institution providing Credit Enhancement for such Bonds.

"Debt" means (1) indebtedness of the Borrower for borrowed money or for the deferred purchase price of property or services, (2) the obligation of the Borrower as lessee under leases which should be recorded as capital leases under generally accepted accounting principles and (3) obligations of the Borrower under direct or indirect guarantees in respect of, and obligations (contingent or otherwise) to purchase or otherwise acquire, or otherwise to assure a creditor against loss in respect of, indebtedness or obligations of others of the kinds referred to in clause (1) or (2) above.

"District" means the South Dakota Conservancy District, a governmental agency, body politic and corporate constituted as an instrumentality of the State of South Dakota exercising public and essential governmental functions and created by the Act, or any body, agency or instrumentality of the State of South Dakota which shall hereafter succeed to the powers, duties or functions of the District under the Indenture and this Loan Agreement.

"District - EPA Agreements" means any and all capitalization grant agreements and other agreements between the District or the Department (as defined in the Indenture) and the EPA relating to the Program and the use of moneys governed by such agreements.

"District Officer" means the Chairman or Secretary of the governing body of the District, and, when used with reference to an act or document, also means any other person authorized by resolution of the District to perform such act or sign such document. If authorized by resolution of the District, a District Officer may delegate any portion of his authority as a District Officer to another person and such person shall be deemed a District Officer for purposes of exercising such authority.

"EPA" means the Environmental Protection Agency, an agency of the United States of America, and any successor to its functions under the Clean Water Act, or any other agency of the United States of America having jurisdiction with respect to the funding of Loans for the Program.

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

"Event of Default" means any event described in Section 9.1 hereof.

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

"Indenture" means the Master Trust Indenture dated as of January 1, 1994 between the District and the Trustee, and all Series Resolutions and other supplements and amendments thereto, including the Series 1994A Resolution.

"Initial Loan Amortization Date" means January 15, 2002, or, if earlier, the earliest of the following: (a) the fifteenth day of the ninth month following the Initial Operation Date, (b) the fifteenth day of the first month following the date on which the Borrower is required to deliver the Completion Certificate pursuant to Section 3.4 of the Loan Agreement, and (c) the fifteenth day of the twenty-fourth month following the approval of the Loan Agreement by the Board of Water and Natural Resources.

"Initial Operation Date" means the date on which operation of the Project begins for the purposes for which it was planned, designed and constructed.

"Loan" means the loan made by the District to the Borrower pursuant to the provisions of the Indenture and this Loan Agreement.

"Loan Agreement" means this Loan Agreement, including the Appendices attached hereto and any amendments hereto.

"Loan Documents" means this Loan Agreement, the Borrower Bond and Collateral Documents, collectively.

"Loan Repayment Date" means the periodic dates on which payments of principal or interest on the Loan are due pursuant to Section 5.1 hereof.

"Loan Repayments" means the payments of principal, interest and Administrative Expense Surcharge on or with respect to the Loan pursuant to this Loan Agreement and the Borrower Bond and all other payments required under this Loan Agreement or the Borrower Bond.

"Loan Term" means the term of this Loan Agreement as set forth in Section 5.1 hereof.

"Net Revenues Available for Debt Service" means, for the period of determination, total operating revenues of the Borrower's System (excluding investment income, grants, penalties, hook-up fees, sign-up fees, membership fees and similar income not received from users for System use, but including any proceeds of business interruption insurance), less expenses of such system other than amortization of financing expenses, depreciation and interest, provided there shall be excluded from both revenues and expenses any profits or losses on the early extinguishment of debt or on the sale or other disposition, not in the ordinary course of business, of investments or fixed or capital assets and any other extraordinary gains or losses.

"Nonexempt Person" means a Person which is not a Governmental Unit.

"Opinion of Bond Counsel" means an Opinion of Counsel of Bond Counsel.

"Opinion of Counsel" means an opinion in writing of Counsel acceptable to the Trustee and the District and, if the opinion pertains to a Series of Bonds all or a portion of which is Credit Enhanced, the Credit Enhancer for such Series or portion thereof.

"Person" means any Private Person or Public Entity.

"Private Person" means any natural person, firm, partnership, association or corporation but not a public body or political subdivision.

"Program" means any program now or hereafter described in the Act pursuant to which the Board of Water and Natural Resources makes loans to Political Subdivisions for various environmental or infrastructure purposes, including projects or purposes authorized by the Clean Water Act.

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

"Public Entity" means any "public entity" as defined in §46A-2-4, SDCL, including without limitation, a county, township, municipality, political or administrative subdivision of State government, irrigation district, water user district, sanitary district, water project district, water development district, watershed district, drainage district, soil conservation district, recycling and waste management district or other public body recognized by State law.

"Related Person" means related person, as such term is described in Section 144(a)(3) of the Code.

"Series" means all Bonds issued under the Indenture on the same date and designated by the District to be of the same Series.

"Series 1994A Bonds" means the District's State Revolving Fund Revenue Bonds, Series 1994A, issued pursuant to the Indenture.

"Series 1994A Resolution" means the Series Resolution adopted by the Board of Water and Natural Resources on February 3, 1994 in connection with the issuance and sale of the Series 1994A Bonds.

"Series Resolution" means a resolution authorizing a Series of Bonds to be issued under and secured by the Indenture.

"State" means the State of South Dakota.

"Subsequent Loan Amortization Date" means, if the Initial Loan Amortization Date occurs prior to the fifteenth day of the first month following the date on which the Borrower is required to deliver the Completion Certificate pursuant to Section 3.4 of the Loan Agreement, (i) the fifteenth day of every sixth month following the Initial Loan Amortization Date until the date in the following clause (ii) occurs and (ii) the fifteenth day of the fifth month after the date on which the Borrower is required to deliver the Completion Certificate pursuant to Section 3.4 of the Loan Agreement.

"System" means the wastewater utility system.

"System Debt" means Debt incurred to acquire, construct, extend, improve, add to or otherwise pay expenses of or related to the Borrower's System, without regard to the source of payment and security for such Debt (i.e., without regard to whether it is general obligation or revenue Debt).

"System Debt Service" means, for the period of determination, all required payments of principal and interest (including mandatory sinking fund redemptions) on all System Revenue Debt of the Borrower.

"System Revenue Debt" means all Debt of the Borrower which is secured solely or partly by the Borrower's System Revenues.

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

"Trustee" means The First National Bank in Sioux Falls, Sioux Falls, South Dakota or any successor thereto as trustee under the Indenture.

Section 1.2. Rules of Interpretation. For all purposes of this Loan Agreement, except as otherwise expressly provided or unless the context otherwise requires: (a) the singular includes the plural and the plural, the singular; (b) words importing any gender include the other genders; (c) references to statutes are to be construed as including all statutory provisions consolidating, amending or replacing the statute to which reference is made and all regulations promulgated pursuant to such statutes; (d) references to "writing" include printing, photocopy, typing, lithography and other means of reproducing words in a tangible visible form; (e) the words "including," "includes" and "include" shall be deemed to be followed by the words "without limitation"; (f) references to the introductory paragraph, preliminary statements, articles, sections (or subdivisions of sections), exhibits, appendices, annexes or schedules are to those of this Loan Agreement unless otherwise indicated; (g) references to agreements and other contractual instruments shall be deemed to include all subsequent amendments and other modifications to such instruments, but only to the extent that such amendments and other modifications are permitted or not prohibited by the terms of this Loan Agreement; (h) references to Persons, including the District and the Trustee, include their respective successors and assigns permitted or not prohibited by the terms of this Loan Agreement; (i) an accounting term not otherwise defined has the meaning assigned to it in accordance with generally accepted accounting principles; (j) "or" is not exclusive; (k) provisions apply to successive events and

transactions; (l) references to documents or agreements which have been terminated or released or which have expired shall be of no force and effect after such termination, release or expiration; (m) references to mail shall be deemed to refer to first-class mail, postage prepaid, unless another type of mail is specified; (n) all references to time shall be to Pierre, South Dakota time; (o) references to specific persons, positions or officers shall include those who or which succeed to or perform their respective functions, duties or responsibilities referred to in the Loan proceedings; (p) the terms "herein," "hereunder," "hereby," "hereto," "hereof" and any similar terms refer to this Loan Agreement as a whole and not to any particular article, section or subdivision hereof, and the term "heretofore" means before the date of execution of this Loan Agreement, the term "now" means at the date of execution of this Loan Agreement and the term "hereafter" means after the date of execution of this Loan Agreement; and (q) references to payments of principal include any premium payable on the same date.

ARTICLE II

REPRESENTATIONS AND COVENANTS

Section 2.1. Representations of Borrower. The Borrower represents as follows:

(a) Organization and Authority. The Borrower:

(i) is duly organized and validly existing under the laws of the State;

(ii) has all requisite power and authority and all necessary licenses and permits required as of the date hereof to own and operate its System and to carry on its current activities with respect to such system, to enter into the Loan Documents and issue the Borrower Bond and to carry out and consummate all transactions contemplated by the Loan Documents and the Borrower Bond, except for licenses and permits to be issued upon completion of the Project;

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

(iv) has taken all proper action to authorize the execution, delivery and performance of its obligations under the Loan Documents and the Borrower Bond and the incurrence of the debt represented by the Borrower Bond in the maximum amount of the Committed Amount.

(b) Pending Litigation. There is no litigation or proceeding pending, or to the knowledge of the Borrower threatened, against or affecting the Borrower in any court or before or by any governmental authority or arbitration board or tribunal that, if adversely determined, would materially adversely affect the existence, corporate or otherwise, of the Borrower, or the ability of the Borrower to make all payments and otherwise perform its obligations under the Loan Documents or the Borrower Bond, or the financial condition of the Borrower (except for litigation or proceedings by the EPA or the State which have been disclosed to the District and which would result in fines or other liability to the Borrower if it does not undertake and complete the Project), or the transactions contemplated by the Loan Documents or the Borrower

Bond or the validity and enforceability of the Loan Documents or the Borrower Bond. No referendum petition has been filed with respect to any resolution or other action of the Borrower relating to the Loan Documents or the Borrower Bond and the period for filing any such petition has expired.

(c) Borrowing Legal and Authorized. The execution and delivery of the Loan Documents and the Borrower Bond and the consummation of the transactions provided for in the Loan Documents and the Borrower Bond and compliance by the Borrower with the provisions of the Loan Documents and the Borrower Bond:

(i) are within the powers of the Borrower and have been duly authorized by all necessary action on the part of the Borrower, including the adoption of a resolution or ordinance by the Borrower's governing body; and

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

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

(e) Governmental Consent. The Borrower has obtained or made all permits, findings and approvals required to the date of this Loan Agreement by any governmental body or officer for the making and performance by the Borrower of its obligations under the Loan Documents and the Borrower Bond (including any necessary System rate increase) or for the Project, the financing or refinancing thereof or the reimbursement of the Borrower for the costs thereof. No consent, approval or authorization of, or filing, registration or qualification with, any governmental authority (other than those, if any, already obtained) is required on the part of the Borrower as a condition to entering into the Loan Documents and issuance of the Borrower Bond and the performance of the Borrower's obligations hereunder and thereunder. If the management and control of the Borrower's System is within the jurisdiction of a municipal utility board, such board has executed this Loan Agreement and any other Loan Documents or otherwise agreed with the District and Trustee to abide by the terms of this Loan Agreement and the other Loan Documents, including approving any necessary System rate increases.

(f) Binding Obligation. This Loan Agreement, the Borrower Bond and any other Loan Documents to which the Borrower is a party are the legal, valid and binding obligations and agreements of the Borrower, enforceable against the Borrower in accordance with their terms except to the extent that the enforceability thereof may be limited by laws relating to bankruptcy, insolvency or other similar laws affecting creditors' rights generally and general principles of equity.

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

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

(i) Compliance With Law. The Borrower:

(1) is in compliance with all laws, ordinances, governmental rules and regulations and court or other governmental orders, judgments and decrees to which it is subject and which are material to the properties, operations and finances of the Borrower's System or its status as a Public Entity and Governmental Unit, except for violations of environmental laws and regulations which the undertaking and completion of the Project will correct;

(2) has obtained all licenses, permits, franchises or other governmental authorizations necessary to the ownership and operation of its System, except for licenses, permits and other authorizations to be received upon completion of the Project, and agrees to obtain all such licenses, permits, franchises or other governmental authorizations as may be required in the future for its System and the operation thereof, which failure to obtain might materially and adversely affect the ability of the Borrower to conduct the operation of its System as presently conducted or the condition (financial or otherwise) of the Borrower's System or the Borrower's ability to perform its obligations under the Loan Documents and the Borrower Bond; and

(3) does not in the construction, maintenance and operation of its System, discriminate in any way on the basis of race, creed, color, religion, sex or national origin.

(j) Population. The population of the Borrower, according to the most recent information available from the U.S. Bureau of the Census, is 54,523. The Borrower's best estimate of its current population is 60,500 and the number of customers of Borrower's System as of the end of its most recent fiscal year is 16,250.

(k) System Debt. The total outstanding System Debt of the Borrower (including, for these purposes, the Committed Amount of the Borrower Bond) is \$231.40 per capita (based on the second of the two figures set forth in (j)) and \$861.54 per System customer.

(l) Loan Closing Submissions. On or prior to the Closing, the Borrower shall submit to the District all documents required by the Clean Water Act and the applicable District-EPA Agreements.

(m) In addition to the requirements of (l) above, the Borrower shall submit to the Trustee and the District the following items in connection with the Closing:

(i) an Opinion of Bond Counsel in form and substance substantially following the form attached hereto as Appendix D, or such other form as the District may deem acceptable upon advice of the Attorney General of the State or any Bond Counsel acting as Counsel for the District;

(ii) the executed Borrower Bond, duly endorsed by the District to the Trustee;

(iii) an executed counterpart of this Loan Agreement;

(iv) a certified resolution of the Borrower's governing body approving the Loan, this Loan Agreement and the Borrower Bond and, if the Borrower's System is managed or controlled by a municipal utility board, a certified copy of a resolution of such board approving and agreeing to be bound by the terms of this Loan Agreement and Borrower Bond;

(v) a certified copy of any required resolution or ordinance necessary to approve the levy of taxes or an increase in rates to pay debt service with respect to the Borrower Bond;

(vi) if all or part of a Loan is being made to refinance a Project or reimburse the Borrower for the costs of a Project paid prior to the Closing, evidence satisfactory to the District and the Bond Counsel referred to in (i) above (A) that the acquisition or construction of the Project was begun no earlier than March 7, 1985, (B) that the Borrower presently has title to the portion of the Project theretofore acquired or constructed, and (C) that the costs of such Project (in such detail as the District may require) have been paid by the Borrower;

(vii) the items required by Section 4.1(a) of this Loan Agreement for the portion of the Loan to be disbursed at Closing;

(viii) any certificate of insurance required by the Loan Agreement;

(ix) an Opinion of Bond Counsel indicating whether the Borrower Bond is exempt from arbitrage rebate and, if it is not, a letter of Bond Counsel outlining arbitrage rebate requirements applicable to the Borrower Bond (herein, the "Arbitrage Rebate Instructions"); and

(x) such other certificates, documents and other information as the Trustee, the District, the Credit Enhancer of the relevant Series of Bonds, if any, or the Bond Counsel giving the opinion required in subparagraph (i) may require (including any necessary Arbitrage Rebate Instructions).

Once the documents listed in (l) and (m) above have been executed and delivered, the Loan will be deemed closed.

Section 2.2. Covenants of Borrower.

(a) Insurance. The Borrower at all times shall keep and maintain with respect to the Project property and casualty insurance and liability insurance with financially sound and reputable insurers, or risk pool coverage programs described in SDCL Chapter 3-22, against such risks and in such amounts, and with such deductible provisions, as are customary in the State in the case of entities of the same size and type as the Borrower and similarly situated and facilities of the Project's type and shall carry and maintain, or cause to be carried and maintained, and pay or cause to be paid timely the premiums for all such insurance. All such insurance policies shall name the Trustee as an additional insured or loss payee. Each policy must provide that it cannot be cancelled by the insurer without giving the Borrower and the Trustee 30 days' notice. The Borrower shall give the District and the Trustee prompt notice of each insurance policy it obtains or has to comply with this Section 2.2(a) and of each renewal, replacement, change in coverage or deductible under or amount of or cancellation of each such insurance policy and the amount and coverage and deductibles and carrier of each new or replacement policy. Such notice shall specifically note any adverse change as being an adverse change. If any Project or portion thereof has been completed prior to Closing, the Borrower shall deliver to the District and Trustee at Closing a certificate providing the information required by this Section 2.2(a).

(b) Right of Inspection and Notice of Change of Location. The Trustee, the District, the EPA and any Credit Enhancer and their designated agents shall have the right at all reasonable times during normal business hours and upon reasonable notice to enter into and upon the property of the Borrower for the purpose of inspecting the Project and/or any or all books and records of the Borrower related to the Project.

(c) Further Assurance. The Borrower shall execute and deliver to the Trustee and the District all such documents and instruments and do all such other acts and things as may be necessary or required by the Trustee or the District to enable the Trustee and the District to exercise and enforce their rights under the Loan Documents and the Borrower Bond and to realize thereon, and record and file and rerecord and refile all such documents and instruments,

at such time or times, in such manner and at such place or places, all as may be necessary or required by the Trustee or the District to validate, preserve and protect the position of the Trustee and the District under the Loan Documents and the Borrower Bond.

(d) Maintenance of Security, if Any; Recordation of Interest. (i) The Borrower shall, at its expense, take all necessary action to maintain and preserve the lien and security interest of the Loan Documents so long as any amount is owing under this Loan Agreement or the Borrower Bond;

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

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

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

(f) Financial Information. The Borrower agrees that each year it shall send to the District:

(1) when adopted, its final budget, with items for the Project and the Borrower's System shown separately within 30 days of adoption;

(2) an unaudited statement of the financial position of the Borrower as of the close of the fiscal year and the related statements of revenues and expenses, cash flows, fund balances and changes in fund balances for such fiscal year, setting forth in each case in comparative form the figures for the previous fiscal year, all prepared in accordance with generally accepted accounting principles, as these are promulgated by the Government Accounting Standards Board, and certified by a responsible official of the Borrower. Such statement shall show separately revenues and expenses and assets and liabilities of the Project. Such

statements shall be prepared by the Borrower within 120 days of the end of the Borrower's fiscal year.

In addition, the Borrower shall send to the District copies of any financial and compliance audit required by state law within 15 days of approval by the State Department of Legislative Audit. If for any consecutive period of two fiscal years, the Borrower is not required by state law to have its financial statements audited and reviewed by the State Department of Legislative Audit, the financial condition of the System shall be audited by an Accountant every two years and the audit report shall be sent to the District within one year after the end of the last fiscal year included in the audit. In addition, Borrower will send to the District a copy of any internal control review report done by or submitted to the State Department of Legislative Audit within 15 days after it has been approved by the State Department of Legislative Audit. The Borrower agrees to comply with the Single Audit Act of 1984.

The Borrower agrees to provide to the District, in connection with the issuance and sale by the District of Additional Bonds or with any sale or other assignment by the District of any or all of its rights under the Loan Documents and the Borrower Bond, any and all financial and other information and documents which the District requests in order to prepare a preliminary or final official statement or other disclosure document to be delivered to purchasers or offerees of the Additional Bonds or of direct or indirect interests in any or all of the rights of the District under the Loan Documents and the Borrower Bond.

The Borrower represents that any such information and documents supplied by the Borrower, taken as a whole, will not contain any untrue or misleading statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

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

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

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

(j) Nondiscrimination. The Borrower does not and shall not in the construction, maintenance and operation of its System discriminate in any way on the basis of race, creed, color, religion, sex or national origin.

(k) Completion of the Project With Due Diligence. The Borrower hereby covenants and agrees that within six months after the date of this Loan Agreement, the Borrower

expects to incur a substantial binding obligation to commence or acquire the Project to be financed by the Loan and upon incurring such binding obligation, work on or acquisition of the Project will proceed with due diligence to completion.

ARTICLE III

USE OF PROCEEDS; THE PROJECT

Section 3.1. Use of Proceeds. The Borrower shall apply the proceeds of the Loan from the District solely as follows:

(a) The Borrower shall apply the proceeds of the Loan solely to the financing, refinancing or reimbursement of the costs of the Project as set forth in Appendix A hereto and this Section 3.1. The Loan will be disbursed in accordance with Article IV hereof and the Indenture. Unless the Project has been completed prior to Closing, the Borrower shall, as quickly as reasonably possible, complete the Project and expend amounts committed to be loaned to it under this Loan Agreement to pay the costs of completing the Project.

(b) No portion of the proceeds of the Loan shall be used to reimburse the Borrower for costs paid prior to the date of this Loan Agreement of a Project the construction or acquisition of which occurred or began earlier than March 7, 1985. If any proceeds of the Loan are to be used (1) to reimburse the Borrower for expenditures made prior to the Closing or (2) to refinance taxable debt any of the proceeds of which were used to reimburse the Borrower for expenditures made prior to the Closing, the Borrower represents that it has complied with the requirements of federal income tax regulation 1.150-2 so that on the date such proceeds are disbursed they will be considered under such Regulation to be proceeds of the Borrower Bond which have been spent.

(c) Any Debt being refinanced with proceeds of the Loan shall have been incurred after March 7, 1985 for a Project the construction or acquisition of which began after March 7, 1985. No proceeds of the Loan shall be used for the purpose of refinancing an obligation the interest on which is exempt from federal income tax or excludable from gross income for purposes of federal income taxation unless the Trustee and the District have received an Opinion of Bond Counsel, acceptable to each of them, that such refinancing will not adversely affect the exclusion of interest on any of the Bonds and the Borrower Bond from gross income for purposes of federal income taxation.

Section 3.2. The Project. Set forth in Appendix A to this Loan Agreement is the Borrower's description of the purposes for which it intends to use the proceeds of the Loan. The facilities and improvements which have been or are to be acquired, installed, constructed or improved and the other activities, if any, to be funded, as described in Appendix A, are herein referred to as the "Project" (the Project may consist of more than one facility or activity). Appendix A and the Project may be amended from time to time by the Borrower by delivery to the District and the Trustee of the following:

(a) A certificate of the Borrower stating that the certificate is being delivered pursuant to this Section 3.2(a) and setting forth the amendment and stating the reason therefor;

(b) A written statement of a Borrower officer stating that either (i) the amendment will not materially reduce the amount of Loan proceeds which will be required to complete the Project or (ii) the amendment will reduce the amount of Loan proceeds needed to complete the Project and stating the reduction and agreeing to a reduction by that amount of the amount committed by the District to be loaned hereunder pursuant to Section 4.1;

(c) A written approval of such change in the Project by the District;

(d) An Opinion of Bond Counsel stating that the Project, as constituted after such amendment, could have been financed under the Act at the time of issuance of any Bonds the proceeds of which funded the Loan, such amendment will not violate the Act and such amendment will not adversely affect the exclusion of interest on any of the Bonds and the Borrower Bond from gross income for purposes of federal income taxation. Such an Opinion of Bond Counsel shall not be required for amendments which do not affect the type of costs or facility to be constructed or the activity to be funded.

Section 3.3. Project Representations and Covenants. The Borrower hereby represents to and covenants with the District and the Trustee that:

(a) all construction of the Project has complied and will comply with all federal and State standards, including, without limitation, EPA regulations and standards;

(b) all future construction of the Project will be done only pursuant to fixed-price construction contracts. The Borrower shall obtain a performance and payment bond from the contractor for each construction contract in the amount of 100% of the construction price and ensure that such bond is maintained until construction is completed to the Borrower's and District's satisfaction;

(c) all future construction will be done in accordance with plans and specifications on file with the District, provided that changes may be made in such plans and specifications with the approval of the District; and

(d) the Project is a project of the type permitted to be financed under the Act and the Program and Title VI of the Clean Water Act.

Section 3.4. Completion or Cancellation or Reduction of Costs of the Project. (a) Upon completion of the Project, the Borrower shall deliver to the District (and the District shall deliver a copy thereof to the Trustee) a certificate stating that the Project is complete, stating the amount, if any, of the undisbursed Committed Amount which will or may be required ("Reserved Amounts") to pay any remaining costs of the Project, and releasing the remaining amount, if any, of the Committed Amount. If any Reserved Amount is not later needed, the Borrower shall so inform the District and the Trustee and release such amount. The Reserved Amount must be expended prior to the 150th day following delivery of the Completion

Certificate, and any remaining Reserved Amounts on such date shall be deducted from the Committed Amount. If Appendix A describes two or more separate projects as making up the Project, a separate Completion Certificate shall be delivered for each but, subject to Section 5.1, Loan Repayments will not begin until all such projects are complete.

(b) If at any time all or any portion of the Project is cancelled or cut back or its costs are reduced or for any other reason the Borrower will not require the full Committed Amount, the Borrower shall notify the District and the Trustee of such fact and release the portion of the Committed Amount which will not be needed.

(c) If at any time on or after the one year anniversary of the date of this Loan Agreement the District shall determine, following consultation with the Borrower, that the Borrower has not fully and faithfully complied with the covenant set forth in Section 2.2(k) hereof or that for any other reason all or any portion of the Project has been cancelled or cut back, the costs of the Project have been reduced or for any other reason the Borrower will not require the full Committed Amount, the District may notify the Borrower and the Trustee of such fact and shall be authorized to reduce the Committed Amount which the District determines will not be needed by the Borrower. The definition of the Project shall be deemed revised to conform to any such determination of the District under this subparagraph (c).

ARTICLE IV

LOAN TO THE BORROWER

Section 4.1. The Loan; Disbursement of Loan. The District hereby agrees to loan to the Borrower, from time to time as the requirements of this Section 4.1 are met, an amount of up to \$14,000,000 (the "Committed Amount") for the purposes of financing, refinancing or reimbursing the Borrower for the costs of the Project. The Committed Amount may be reduced as provided in Sections 3.1(a), 3.2(b), 3.4 and 9.2. The Loan shall be disbursed as provided in this Section 4.1:

(a) The Trustee shall make a disbursement of all or a portion of the Loan upon receipt of the documents described in Section 2.1(l) and (m) hereof together with a written order of the District, signed by a District Officer, authorizing such disbursement and stating which Account of the Loan Fund such disbursement is to be made from, and any other documents required pursuant to this Loan Agreement or requested by the District or the Trustee.

(b) In order to obtain a disbursement of a portion of the Loan to pay costs of the Project, the Borrower shall submit to the District a signed request for disbursement on the form prescribed by the District, with all attachments required by such form. The Borrower may obtain disbursements only for costs which have been legally incurred and are either presently due and payable or have been paid by the Borrower. Unless the cost has already been paid by the Borrower or unless the District directs the Trustee otherwise, the disbursement shall be made by the Trustee directly to the Person to whom the Borrower owes such amount.

(c) For refinancings, a disbursement schedule complying with the requirements of the Clean Water Act shall be established by the District and the Borrower at Closing. The Trustee shall disburse Loan amounts directly to the holder of the debt being refinanced according to such schedule. If the Borrower should repay all or a portion of the debt to be refinanced from other sources or should otherwise not need any portion of the Loan which was to have been used to refinance such debt, it shall inform the District and Trustee of such fact pursuant to Section 3.4(b) and a new disbursement schedule shall be drawn up by the District. The Trustee or District shall obtain a receipt from the holder of the debt being refinanced for each disbursement made to pay or prepay a portion of such debt.

(d) If all or a portion of a Loan is made to reimburse a Borrower for Project costs paid by it prior to Closing, the Borrower shall present at Closing the items required by Section 4.1(b) relating to such costs. The District shall direct the Trustee to disburse such amounts to the Borrower pursuant to a disbursement schedule complying with the requirements of the Clean Water Act established by the District and the Borrower at the Closing.

(e) Notwithstanding anything else provided herein, the District shall not be obligated to disburse Loans any faster or to any greater extent than it has available EPA Capitalization Grants, Bond proceeds, State appropriated funds and other amounts in the Loan Fund held under the Indenture. The Borrower acknowledges that if Project costs are incurred faster than the Borrower projected at Closing, there may be delays in making Loan disbursements for such costs because of the schedule under which EPA makes EPA Capitalization Grant moneys available to the District. The District will use its best efforts to obtain an acceleration of such schedule if necessary.

(f) Upon making each Loan disbursement, the Trustee shall note such disbursement on Schedule A to the Borrower Bond.

Section 4.2. Commencement of Loan Term. The Borrower's obligations under the Loan Documents shall commence as of Closing unless otherwise provided in this Loan Agreement. However, the obligation to make payments under Article V hereof shall commence only upon the first disbursement by the Trustee of Loan proceeds.

Section 4.3. Termination of Loan Term. The Borrower's obligations under this Loan Agreement and the other Loan Documents shall terminate upon payment in full of all amounts due under the Borrower Bond, this Loan Agreement and any other Loan Documents; provided, however, that the covenants and obligations provided in Sections 7.1, 7.2, 9.4, 10.7 and 10.9 shall survive the termination of this Loan Agreement.

ARTICLE V

REPAYMENT OF LOAN

Section 5.1. Repayment of Loan. The Borrower shall repay the amounts loaned to it pursuant to Section 4.1 hereof, plus interest on the unpaid amounts loaned at the rate of 3.50% per annum, payable in quarterly payments due on the fifteenth day of January, April, July and October of each year, over a term of 20 years from the Initial Loan Amortization Date. In addition, the Borrower shall pay an Administrative Expense Surcharge on the outstanding principal amount of the Loan calculated at the rate of 1.00% per annum. The Borrower shall pay all Loan Repayments and Administrative Expense Surcharges in lawful money of the United States of America to the Trustee. Interest on the unpaid principal of the Loan and the Administrative Expense Surcharge shall each be calculated on the basis of a year of 360 days made up of 12 months of 30 days each.

The payments of principal, and interest and the Administrative Expense Surcharge with respect to the Loan shall be due on the dates and in the amounts shown in Schedule B to the Borrower Bond, as such Schedule B shall be modified from time to time as provided below. The portion of each such Loan Repayment consisting of principal and the portion consisting of interest and the amount of each Administrative Expense Surcharge shall be set forth in Schedule B to the Borrower Bond. Upon each disbursement of Loan amounts to the Borrower pursuant to Section 4.1 hereof, the District shall enter or cause to be entered the amount advanced on Schedule A to the Borrower Bond under "Advances" and the total amount advanced under Section 4.1, including such disbursement, under "Total Amount Advanced."

If the advance was for refinancing or reimbursement pursuant to Section 4.1(c) or reimbursement for a completed Project pursuant to Section 4.1(d), the Trustee shall on the date of the advance revise Schedule B to the Borrower Bond, as follows, and send a copy of the Revised Schedule B to the Borrower:

(a) the principal of the advance shall be repayable quarterly on the fifteenth day of January, April, July and October, subject to the requirements of this Section 5.1, beginning on the first such date after the advance is made, and the amount of each principal payment shall be calculated on the basis of substantially level annual debt service over the remaining term of the Loan at a rate of 4.50% per annum; and

(b) interest and Administrative Expense Surcharge on the advance shall be payable quarterly on the fifteenth day of each January, April, July and October, subject to the requirements of this Section 5.1, beginning on the first such date after the advance is made.

If the advance was made to pay costs of the Project pursuant to Section 4.1(b) or to reimburse the Borrower pursuant to Section 4.1(d) for costs of a Project not yet completed (a "Construction Advance"), interest and Administrative Expense Surcharge on such advance shall accrue from the date the advance is made. On the Initial Loan Amortization Date, all interest and Administrative Expense Surcharge accrued on all Construction Advances up to such date shall be due and payable, thereafter:

(a) interest and Administrative Expense Surcharge on such advances shall be payable quarterly on the fifteenth day of each January, April, July and October, subject to the requirements of this Section 5.1, beginning on the first such date after the Initial Loan Amortization Date; and

(b) the principal of such advances shall be repayable quarterly on the fifteenth day of each January, April, July and October, subject to the requirements of this Section 5.1, beginning on the first such date after the Initial Loan Amortization Date and the amount of each principal payment shall be calculated on the basis of substantially level annual debt service over the remaining term of the Loan at an interest rate of 4.50% per annum.

On each Subsequent Loan Amortization Date, if any, all interest and Administrative Expense Surcharge accrued on all Construction Advances made since the Initial Loan Amortization Date or the last Subsequent Loan Amortization Date, as the case may be, shall be due and payable, and thereafter:

(x) interest and Administrative Expense Surcharge on such advances shall be payable quarterly on the fifteenth day of each January, April, July and October, subject to the requirements of this Section 5.1, beginning on the first such date after such Subsequent Loan Amortization Date; and

(y) the principal of such advances shall be repayable quarterly on the fifteenth day of each January, April, July and October, subject to the requirements of this Section 5.1, beginning on the first such date after such Subsequent Loan Amortization Date, and the amount of each principal payment shall be calculated on the basis of substantially level annual debt service over the remaining term of the Loan at an interest rate of 4.50% per annum.

Once the Completion Certificate for the Project is required to be delivered pursuant to Section 3.4, the District shall prepare or revise or cause to be prepared or revised Schedule B to the Borrower Bond and the Trustee shall, after verifying the District's calculations, send a copy of such Schedule B to the Borrower. Such Schedule B shall be sent to the Borrower within one month after delivery of the completion certificate. If further disbursements are to be made pursuant to Section 4.1(c) and (d), the Trustee shall continue to revise Schedule B to the Borrower Bond in accordance with the preceding paragraphs.

Past-due payments of principal, interest and Administrative Expense Surcharges shall bear interest at the rate of 8% per annum, compounded on each Loan Repayment Date, until paid.

Any payment of principal, interest or Administrative Expense Surcharge under this Section 5.1 shall be credited against the same payment obligation under the Borrower Bond.

Section 5.2. Additional Payments. The Borrower shall also pay (unless the District specifically waives such payment in writing), within 30 days after receipt of a bill therefor, all

reasonable expenses of the District and the Trustee in connection with the Loan Documents and the Borrower Bond, including, but not limited to:

- (1) the cost of reproducing the Loan Documents and the Borrower Bond;
- (2) the fees and disbursements of Bond Counsel and other Counsel utilized by the District and the Trustee in connection with the Loan, the Loan Documents and the Borrower Bond and the administration, interpretation or enforcement thereof; and
- (3) all taxes and other governmental charges in connection with the execution and delivery of the Loan Documents or the Borrower Bond, whether or not the Borrower Bond is then outstanding, including all recording and filing fees and stamp taxes relating to the Loan Documents and the pledge and assignment of the District's right, title and interest in and to the Borrower Bond and the Loan Documents pursuant to the Indenture (and with the exceptions noted therein) and all expenses, including attorneys' fees, relating to any amendments, waivers, consents or collection or enforcement proceedings pursuant to the provisions hereof or thereof.

Section 5.3. Prepayments. The Borrower shall not prepay any principal payment set forth on Schedule B to the Borrower Bond any more than 15 days prior to the due date set forth in such Schedule B, unless the District consents in writing to such prepayment. If the District consents to a prepayment, such prepayment must be accompanied by payment of accrued interest and Administrative Expense Surcharge to the date of prepayment on the amount of principal prepaid. If the Loan is prepaid in part, principal payments shall be reduced in inverse order of maturity. A prepayment without the District's consent shall be returned to the Borrower.

Section 5.4. Obligations of Borrower Unconditional. The obligations of the Borrower to make the payments required by this Loan Agreement and the Borrower Bond and to perform its other agreements contained in the Loan Documents and the Borrower Bond shall be absolute and unconditional, except as otherwise provided herein or in such documents. The Borrower (a) shall not suspend or discontinue any payments provided for in the Loan Documents and the Borrower Bond, (b) shall perform all its other agreements in the Loan Documents and the Borrower Bond and (c) shall not terminate the Loan Documents or the Borrower Bond for any cause, including any acts or circumstances that may constitute failure of consideration, destruction of or damage to the Project, commercial frustration of purpose, any dispute with the District or the Trustee or the EPA, any change in the laws of the United States or of the State or any political subdivision of either or any failure of the District or Trustee to perform any of its agreements, whether express or implied, or any duty, liability or obligation arising from or connected with this Loan Agreement.

Section 5.5. Pledge of Net Revenues. The Borrower hereby irrevocably pledges to the District to secure the Borrower's obligation to pay all amounts payable under this Loan Agreement and the Borrower Bond all income and revenues of its System, including, without limitation, fees charged to the users for System service, penalties and hook-up fees, sign-up fees, proceeds of business interruption insurance, proceeds of the sale of property constituting part of such system and investment income on all such revenues, but only to the extent such revenues exceed the amounts necessary to operate and maintain such System, provided there shall be

excluded from such pledge the proceeds of any grant or loan from the State or the United States, and any investment income thereon, to the extent such exclusion is a condition to such grant or loan. The Borrower represents that there are no liens on such revenues and that it shall not grant or permit to exist any liens on such revenues, superior to that granted by this Section 5.5 and that such pledge constitutes a first priority perfected security interest in such revenues, except for such liens as secure parity Debt which has been disclosed in writing to the District. As required or authorized by SDCL § 9-40-16, the Borrower shall set aside in a separate account on a monthly basis the portion of its System income and revenues necessary to pay the Loan Repayments. The Borrower has not granted and shall not grant or permit to exist any lien on its System Revenues without the written consent of the District, except as provided in this Section 5.5 and in Section 6.5 and except for liens securing System Debt outstanding on the date of this Loan Agreement and which has been disclosed in writing to the District.

Section 5.6. Limited Liability. All payments of principal of and interest on the Loan and other payment obligations of the Borrower hereunder and under the Borrower Bond shall be limited obligations of the Borrower payable solely out of the income and revenues pledged by the Borrower pursuant to Section 5.5 and shall not be payable out of any other revenues of the Borrower. The obligations of the Borrower under this Loan Agreement and the Borrower Bond shall never constitute or give rise to a pecuniary liability of the Borrower or a charge against its general credit or taxing power. Unless otherwise permitted by law, the provisions of SDCL § 9-40-18 shall apply to this Loan Agreement, and, accordingly, the taxing powers of the Borrower may not be used to pay any Loan Repayment, and no funds or property of the Borrower other than those referred to in Section 5.5 may be used to pay Loan Repayments.

Section 5.7. Incorporation of Chapter 9-40, SDCL. The Borrower is entering into this Loan Agreement and issuing the Borrower Bond pursuant to Chapter 9-40, SDCL and any acts amendatory thereto and Chapter 6-8B, SDCL and any acts amendatory thereto and a resolution of the Borrower adopted on February 5, 2001, and this Loan Agreement and the Borrower Bond are subject to all the provisions and limitations of such Chapter 9-40 and Chapter 6-8B, amendatory acts and Resolution, all of which are hereby incorporated herein by reference.

ARTICLE VI

OTHER BORROWER AGREEMENTS

Section 6.1. Maintenance of System; Liens. The Borrower shall maintain its System, including the Project, in good condition and make all necessary renewals, replacements, additions, betterments and improvements thereto. The Borrower shall not grant or permit to exist any lien on the Project or any other property making up part of its System, other than liens securing Debt where a parity lien or superior lien secures this Loan Agreement and the Borrower Bond, provided that this Section 6.1 shall not be deemed to be violated if a mechanic's or contractor's lien is filed against any such property so long as the Borrower uses its best efforts to obtain the discharge of such lien and promptly reports to the District on the filing of such lien the steps it plans to take and does take to discharge such lien and the discharge of such lien.

Section 6.2. Maintenance of Existence; Merger, Consolidation, Etc. The Borrower shall maintain its corporate existence as a Public Entity and Governmental Unit, except that it may (a) consolidate with or merge into another Governmental Unit, (b) permit one or more Governmental Units to consolidate with or merge into it; or (c) may transfer all or substantially all of its assets to another Governmental Unit and then dissolve if the surviving, resulting or transferee entity (if other than the Borrower) (i) is a Public Entity and Governmental Unit (ii) assumes in writing all of the obligations of the Borrower under the Loan Documents and the Borrower Bond, and (iii) such action does not result in any default in the performance or observance of any of the terms, covenants or agreements of the Borrower under the Loan Documents and the Borrower Bond, (iv) such action does not violate the Act or the Clean Water Act and does not adversely affect the exclusion of interest on the Bonds and the Borrower Bond from gross income for federal income tax purposes and (v) the Borrower delivers to the District and the Trustee on the date of such action an Opinion of Bond Counsel that such action will not violate the Act or adversely affect the exclusion of interest on the Bonds and the Borrower Bond from gross income for federal income tax purposes.

Other than pursuant to the preceding paragraph, the Borrower shall not transfer its System or any portion thereof to any other Person, except for property which, in the good-faith opinion of the Borrower, is obsolete, outmoded, worn out, is being replaced or otherwise is not needed for the operation of the Borrower's System, unless the provisions of (iii), (iv) and (v) of the preceding paragraph are satisfied and the Borrower delivers to the District and the Trustee an Opinion of Bond Counsel that such transfer will not violate the Act or adversely affect the exclusion of interest on the Bonds and the Borrower Bond from gross income for federal income tax purposes and, in addition, the District consents to such transfer.

Section 6.3. Covenants Relating to the Tax-Exempt Status of the Bonds. (a) The Borrower covenants and agrees that it will not use or permit to be used any of the funds provided by the District hereunder or any other funds of the Borrower, directly or indirectly, in a manner that would cause, or take any other action that would cause, any Bond or the Borrower Bond to be an "arbitrage bond" within the meaning of Section 148 of the Code or would otherwise cause the interest on the Bonds or the Borrower Bond to be included in gross income for purposes of federal income taxation. In addition, the Borrower agrees that it will not enter into, or allow any "related person" (as defined in Section 147(a)(2) of the Code) to enter into, any arrangement, formal or informal, for the purchase of the Bonds or any other obligations of the District in an amount related to the amount of the Loan or the portion of the Loan derived directly or indirectly from proceeds of any Bonds or that would otherwise cause any Bond or the Borrower Bond to be an "arbitrage bond" within the meaning of Section 148 of the Code.

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

(c) Any portion of the Project being refinanced or the cost of which is being reimbursed was acquired by and is now and shall, during the term of the Loan, be owned by the

Borrower and not by any other person. Any portion of the Project being financed shall be acquired by and shall, during the term of the Loan, be owned by the Borrower and not by any other Person. Notwithstanding the previous two sentences, the Borrower may transfer the Project or a portion thereof to another Governmental Unit which is also a Public Entity if such transfer is otherwise permitted hereunder and if such organization agrees with the District and the Trustee to comply with Sections 2.2(h), 2.2(i) and 6.3 hereof and if the District and the Trustee receive an Opinion of Bond Counsel that such transfer will not violate the Act or adversely affect the exclusion of interest on the Bonds and the Borrower Bond from gross income for purposes of federal income taxation. In addition, except as otherwise provided herein or in any other Loan Documents, the Borrower may sell or otherwise dispose of any portion of the Project which, in the good-faith opinion of the Borrower, has become obsolete or outmoded or is being replaced or for other reasons is not needed by the Borrower or beneficial to the general public or necessary to carry out the purposes of the Clean Water Act.

(d) The Borrower shall comply with the Arbitrage Rebate Instructions, if any, delivered to it by the District at Closing, as such Instructions may be amended or replaced by the District from time to time. The Arbitrage Rebate Instructions may be amended or replaced by new Arbitrage Rebate Instructions delivered by the District and accompanied by an Opinion of Bond Counsel addressed to the Trustee and the Borrower to the effect that the use of said amended or new Arbitrage Rebate Instructions will not adversely affect the excludability of interest on the Bonds and the Borrower Bond from gross income of the recipients thereof for federal income tax purposes.

(e) The Borrower agrees that during the Loan Term it will not contract with or permit any Nonexempt Person to manage the Project or any portion thereof unless (i) such management contract complies with the requirements of federal income tax regulations Section 1.141-1 through 1.141-16 and Rev. Proc. 97-13 or any subsequent revenue procedures, revenue rulings or regulations promulgated by the United States Department of Treasury or (ii) the District and the Trustee shall have received a written opinion of Bond Counsel to the effect that such management contact will not adversely affect the exclusion of interest on the Bonds and the Borrower Bond from gross income for purposes of federal income taxation.

(f) The Borrower may not lease the Project or any portion thereof to any Person except as follows: (1) the Borrower may lease all or any portion of the Project to a Governmental Unit which agrees in writing with the Borrower and the Trustee not to cause any Default to occur under this Loan Agreement and (2) the Borrower may lease all or any portion of the Project to a Nonexempt Person pursuant to a lease which, in the Opinion of Bond Counsel, delivered to the District and the Trustee, will not adversely affect the exclusion of interest on the Bonds and the Borrower Bond from gross income for purposes of federal income taxation.

(g) The Borrower shall not change the use or nature of the Project unless (i) the action does not violate the Clean Water Act and (ii), in the Opinion of Bond Counsel delivered to the District and the Trustee, such change will not adversely affect the exclusion from gross income of interest on the Bonds and the Borrower Bond for federal income tax purposes.

Section 6.4. Rate Covenant. The Borrower shall ensure that in each fiscal year its Net Revenues Available for Debt Service equal at least 110% of its System Debt Service for such fiscal year and shall, as soon as practicable and in any event by the date it is required to deliver unaudited financial statements to the District pursuant to Section 2.2(f), (a) calculate its Net Revenues Available for Debt Service and System Debt Service for such fiscal year and the coverage ratio and (b) certify such figures to the District and the Trustee. The certification described in clause (b) of the preceding sentence shall be substantially in the form of the certificate attached hereto as Appendix E to this Loan Agreement. If the percentage specified in clause (3) of the certificate required by the preceding sentence is less than 110%, then the Borrower shall provide such further certifications as the District shall reasonably require to determine the Borrower's compliance with the requirements of this Loan Agreement. Failure to meet such coverage test shall not be an Event of Default hereunder so long as (1) the coverage was at least 100% and (2) the Borrower, within 30 days of its certification to the District and Trustee, retains a Consultant to make recommendations in a report to be delivered to the Borrower within 60 days of his being retained as to the actions required in order to achieve compliance and, upon receipt of such report, takes the actions which are recommended (except to the extent it receives the written consent of the District to not take any such actions). The Borrower shall supply the District with quarterly reports on the actions it is taking to, correct its coverage deficiency until it delivers an annual coverage certificate showing compliance with the first sentence of this Section.

Notwithstanding anything provided to the contrary in the preceding paragraph, if the Borrower has issued System Revenue Debt to finance the construction of expansions to its System ("Expansion Debt") and construction was not complete prior to the beginning of a fiscal year, the coverage ratio called for in the previous paragraph shall be 110% with respect to all System Revenue Debt except such Expansion Debt and 100% for such Expansion Debt, and capitalized interest funded from the proceeds of such Expansion Debt or other sources shall be counted as Net Revenues Available for Debt Service.

Section 6.5. Additional Debt. The Borrower shall not incur any System Revenue Debt having a lien on or right to payment from the Borrower's System Revenues that is superior to that of this Loan Agreement and the Borrower Bond. The Borrower may incur System Revenue Debt that is on a parity with or subordinate to this Loan Agreement and the Borrower Bond under the following conditions:

(a) System Revenue Debt may be incurred to pay or prepay or defease other System Revenue Debt if the maximum annual System Debt Service of the new System Revenue Debt is no greater than that of the System Revenue Debt being paid, prepaid or defeased.

(b) System Revenue Debt may also be incurred for any purpose so long as prior to the issuance of such System Revenue Debt the Borrower has taken or caused to be taken any and all action necessary to raise System rates and taken or caused to be taken any other necessary action so that the rate covenant set forth in Section 6.4 will be met for the 12 months following the incurrence of such System Revenue Debt and has delivered to the District and the Trustee a written forecast of a Consultant that such rate covenant will be met during such 12 months, setting forth in detail its calculations; provided, however, that for expansions of the

Borrower's System, the Consultant's forecast shall state that for such 12 months both (1) Net Revenues Available for Debt Service will equal at least 100% of System Debt Service and (2) assuming that the expansion was complete and placed in service on the date of the forecast and all other conditions expected to be in effect on the expected date of completion were in effect on the date of the forecast, Net Revenues Available for Debt Service would equal at least 110% of System Debt Service.

(c) The Borrower may not without the written consent of the District incur any (i) variable rate System Revenue Debt or (ii) System Revenue Debt the payments of principal of and interest on which in any fiscal year are 150% or more of the payments of principal and interest for any other fiscal year.

(d) The Borrower may also incur any System Revenue Debt with the written consent of the District.

Section 6.6. Additional Tax Covenant and Requirements for an Opinion of Bond Counsel.

(a) The Borrower acknowledges that the District has advised Borrower that the District intends to and reserves the right to have maximum flexibility to allocate and reallocate from time to time the proceeds of the Bonds, the moneys made available to the District pursuant to the District-EPA Agreements and all other funds in any manner which is advantageous to the District in its sole discretion, and that accordingly, unless waived in writing by an Authorized Representative of the District, the Borrower shall at all times treat the Loan as having been funded by the District with the proceeds of Bonds, the interest on which is intended to be excluded from gross income for federal income tax purposes.

(b) Any Opinion of Bond Counsel provided in connection with this Loan Agreement shall assume, for all purposes, that the Loan to the Borrower has been funded out of proceeds of the Bonds, the interest on which is intended to be excluded from gross income for federal income tax purposes.

ARTICLE VII

INDEMNIFICATION

Section 7.1. Indemnification of District. The Borrower shall indemnify and save harmless the District and its members, officers, employees and agents against and from any and all claims, damages, demands, expenses, liabilities and losses of every kind asserted by or on behalf of any Person arising out of, resulting from or in any way connected with the condition, use, possession, conduct, management, planning, design, acquisition, construction, installation or financing of the Project. The Borrower shall also indemnify and save harmless the District against and from all costs, reasonable counsel fees, expenses and liabilities incurred in any action or proceeding brought by reason of any such claim or demand. If any proceeding is brought against the District by reason of any such claim or demand, the Borrower shall, upon notice from the District, defend such proceeding on behalf of the District. Notwithstanding the foregoing,

the Borrower shall not be obligated to indemnify the District or any of its members, officers, employees or agents or hold any of them harmless against or from or in respect of any claim, damage, demand, expense, liability or loss arising from the intentional or willful misconduct or gross negligence of the District or any of its members, officers, employees or agents.

Section 7.2. Indemnification of Trustee. The Borrower agrees to indemnify the Trustee and to hold it harmless against any loss, liability or expense incurred without negligence or bad faith on its part arising out of or in connection with the exercise or performance of any of its powers or duties hereunder or under the Borrower Bond or any of the Loan Documents or, insofar as such duties pertain to the Loan, under the Indenture.

ARTICLE VIII

ASSIGNMENT

Section 8.1. Assignment by Borrower. The Borrower may not assign its rights and obligations under this Loan Agreement except as provided in Section 6.2.

Section 8.2. Assignment by District. (a) The District will assign its rights under and interest in the Loan Documents and the Borrower Bond (except to the extent otherwise provided in the Granting Clauses and Section 5.10 of the Indenture) to the Trustee pursuant to the Indenture as security for the payment of the Bonds, and the Trustee shall be entitled to act hereunder and under the Borrower Bond and the Loan Documents in the place and stead of the District whether or not the Bonds are in default and the Borrower consents to such assignment and all other provisions of this paragraph.

(b) At any time after the total Committed Amount has been disbursed pursuant to Section 4.1, the Borrower Bond and the rights of the District and Trustee and obligations of the Borrower hereunder shall be freely assignable.

(c) The First National Bank in Sioux Falls or such other financial institution or public official as shall be designated by the Borrower and approved by the District shall serve as registrar for this Loan Agreement and the Borrower Bond, and the registrar shall register the transfer of the Loan Agreement and Borrower Bond upon their presentation by the holder thereof endorsed for transfer or with a separate document assigning them (the Indenture constitutes such a document for the assignment to the Trustee). Upon the direction of the District at any time after the Committed Amount has been disbursed, the Borrower shall deliver to the District (or the Trustee if it is the holder of the Borrower Bond) in exchange for the Borrower Bond several executed Borrower Bonds representing in the aggregate the same debt as the initial Borrower Bond, but each such Borrower Bond shall represent that portion of such debt coming due on any one date set forth in Schedule B to the initial Borrower Bond. Such Borrower Bonds shall be in the form of Appendix B hereto, but with the first paragraph thereof replaced by the paragraph set forth in Appendix B-1 hereto and with Schedule A deleted and with Schedule B redesignated as Schedule A.

Section 8.3. Refunding Bonds. In the event Bonds are refunded by bonds which are not Additional Bonds, the District may assign the Loan Documents and the Borrower Bond to secure such refunding bonds, and all references in this Loan Agreement to Series 1994A Bonds, Bonds and Additional Bonds shall be deemed to refer to the refunding bonds and any bonds of the District issued on a parity with such refunding bonds (together, "Refunding Bonds") or, in the case of a crossover refunding, to the Series 1994A Bonds, Bonds and Additional Bonds and the Refunding Bonds and references to the Trustee, Credit Enhancer and other terms herein shall be deemed to refer to the trustee, credit enhancer or other party or document for the Refunding Bonds (or both the Refunding Bonds and the Bonds prior to the crossover date of a crossover refunding) and the District may assign the Loan Documents and the Borrower Bond to such trustee to secure the Refunding Bonds. In the event Bonds are refunded by an issue of Additional Bonds, all references in the Loan Documents to the Bonds so refunded shall be deemed to refer to such Additional Bonds or, in the case of a crossover refunding, both the Bonds so refunded and such Additional Bonds.

ARTICLE IX

DEFAULTS AND REMEDIES

Section 9.1. Events of Default Defined. The following shall be "Events of Default" under this Loan Agreement and the term "Event of Default" shall mean (except where the context clearly indicates otherwise), whenever it is used in this Loan Agreement, any one or more of the following events:

(a) Failure by the Borrower to pay any Loan Repayment required to be paid hereunder or under the Borrower Bond on the date on which it is due and payable;

(b) Failure by the Borrower to observe and perform any covenant, condition or agreement on its part to be observed or performed under this Loan Agreement (including in the Appendices hereto), other than as referred to in Section 9.1(a) or 9.1(c) through (l), for a period of 30 days after written notice, specifying such failure and requesting that it be remedied, is given to the Borrower by the District or the Trustee, unless the District and Trustee shall agree in writing to an extension of such time prior to its expiration; provided, however, if the failure stated in the notice can be wholly cured within a period of time not materially detrimental to the rights of the District, the Trustee or the Holders of the Bonds, but cannot be cured within the applicable 30-day period, the District and Trustee will not unreasonably withhold their consent to an extension of such time if corrective action is instituted by the Borrower within the applicable period and diligently pursued until the failure is corrected; and provided further that if by reason of force majeure the Borrower is unable in whole or in part to carry out the agreements on its part herein contained, the Borrower shall not be deemed in default under this Section 9.1(b) during the continuance of such inability (but force majeure shall not excuse any other Event of Default). The term "force majeure" as used herein shall mean, without limitation, the following: acts of God; strikes, lockouts or other labor disturbances; acts of public enemies; orders or restraints of any kind of the government of the United States of America or of the State or any of their departments, agencies or officials, or any civil or military authority (other than the Borrower or a municipal utility board); insurrections; riots; landslides; earthquakes; fires; storms;

droughts; floods; explosions; breakage or accident to machinery, transmission pipes or canals; or any other cause or event not reasonably within the control of the Borrower;

(c) Any warranty, representation or other statement by or on behalf of the Borrower contained in the Loan Documents or the Borrower Bond or in any certificate, instrument or other document furnished in compliance with or in reference to the Loan, the Loan Documents or the Borrower Bond (including certificates and other documents submitted at or before Closing) is false or misleading in any material respect;

(d) A petition is filed against any entity which has provided a Collateral Document to secure the Loan under any bankruptcy, moratorium, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether now or hereafter in effect, and is not dismissed within 30 days after such filing, but the District and the Trustee shall each have the right to intervene in the proceedings prior to the expiration of such 30 days to protect its interests and the interests of the Holders of the Bonds;

(e) The Borrower or any entity which has provided a Collateral Document to secure the Loan files a petition in voluntary bankruptcy or seeking relief under any provision of any bankruptcy, moratorium, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether now or hereafter in effect, or consents to the filing of any petition against it under any such law;

(f) The Borrower or any entity which has provided a Collateral Document to secure the Loan admits insolvency or bankruptcy or its inability to pay its debts as they become due or is generally not paying its debts as such debts become due, or becomes insolvent or bankrupt or makes an assignment for the benefit of creditors, or a custodian (including without limitation a receiver, liquidator or trustee) of any such entity for any of its property is appointed by court order or takes possession thereof and such order remains in effect or such possession continues for more than 30 days, but the District and the Trustee shall have the right to intervene in the proceedings prior to the expiration of such 30 days to protect their interests and the interests of the Holders of the Bonds;

(g) The Borrower shall fail to observe and perform any of the covenants referred to in Sections 2.1(a)(iii), 3.1(b), 3.1(c), 3.2(d), 3.3(d), 6.2, 6.3 or 8.1, or any of the representations and warranties contained in such Sections shall be or become false;

(h) The District or its assigns shall fail to have a valid and enforceable first priority perfected security interest in or lien on the revenues described in Section 5.5 or the collateral described in any Loan Documents, subject only to encumbrances permitted by such Section 5.5 or such Loan Documents;

(i) Default under any agreement to which the Borrower is a party evidencing, securing or otherwise respecting any System Revenue Debt if, and as a result thereof, such Debt may be declared immediately due and payable or other remedies may be exercised with respect thereto;

(j) Any event of default shall occur under the Collateral Documents or any event occurs which permits a draw under a letter of credit or other third-party guaranty securing the Loan;

(k) Any material provision of the Loan Documents or the Borrower Bond shall at any time for any reason cease to be valid and binding on the Borrower or the obligor with respect to any of the Loan Documents, or shall be declared to be null and void, or the validity or enforceability of any thereof shall be contested by the Borrower or such obligor or any governmental agency or authority (other than the District), or the Borrower or the obligor with respect to any of the Loan Documents shall deny any further liability or obligation under the Loan Documents or the Borrower Bond; or

(l) Failure by the Borrower to comply with any condition or requirement of the Clean Water Act pertaining to the Loan or the Project, for a period of 30 days after written notice, specifying such failure and requesting that it be remedied, is given to the Borrower by the District, unless the District shall agree in writing to an extension of such time or shall waive such failure in writing.

Section 9.2. Remedies on Default. Whenever any Event of Default has occurred and is continuing, the District or the Trustee may take whichever of the following actions may appear necessary or desirable to collect the payments then due and to become due or to enforce performance of any agreement of the Borrower in this Loan Agreement or the Borrower Bond:

- (a) Suspend the making of disbursements of the Loan under Section 4.1;
- (b) Reduce or revoke the remainder, if any, of the Committed Amount;
- (c) Pursue its remedies under the Borrower Bond and any of the Loan Documents; and
- (d) Take whatever other action at law or in equity may appear necessary or desirable to collect amounts then due and thereafter to become due hereunder or to enforce any other of its rights hereunder.

Section 9.3. Delay Not Waiver; Remedies. A delay or omission by the District or the Trustee in exercising any right or remedy accruing upon an Event of Default shall not impair the right or remedy or constitute a waiver of or acquiescence in the Event of Default. No remedy is exclusive of any other remedy. All available remedies are cumulative.

Section 9.4. Attorneys' Fees and Expenses. If the Borrower or any obligor under any Collateral Documents should default under any provision of the Borrower Bond or any other Loan Documents and the District or the Trustee should employ attorneys or incur other expenses for the collection of the payments due under any of the Loan Documents, the Borrower shall, on demand, pay to the District or the Trustee the reasonable fees of such attorneys and such other reasonable expenses so incurred by the District or the Trustee.

Section 9.5. Application of Moneys. Any moneys collected by the District or the Trustee pursuant to Section 9.2 hereof shall be applied (a) first, to pay any attorneys' fees or other expenses owed by the Borrower to the District and Trustee pursuant to Section 9.4 hereof, (b) second, to pay any interest and penalties due on the Loan, (c) third, to pay any Administrative Expense Surcharge which is due, (d) fourth, to pay principal due on the Loan, (e) fifth, to pay any other amounts due hereunder and (f) sixth, to pay interest and principal on the Loan and other amounts payable hereunder, but which are not due, as they become due (in the same order, as to amounts which come due simultaneously, as in (a) through (e) in this Section 9.5).

Section 9.6. Notice of Default. The Borrower agrees to give the Trustee and the District prompt written notice if any petition referred to in Section 9.1(d) or 9.1(e) is filed or of the occurrence of any other event or condition which constitutes, or would with the passage of time or notice and the passage of time constitute, an Event of Default immediately upon becoming aware of the existence thereof.

ARTICLE X

MISCELLANEOUS

Section 10.1. Notices. All notices or other communications hereunder shall be sufficiently sent or given and shall be deemed sent or given when delivered or mailed by first-class or registered or certified mail, postage prepaid, to the parties at the following addresses:

District: South Dakota Department of Environment and Natural Resources
Division of Financial and Technical Assistance
523 East Capitol Avenue
Joe Foss Building
Pierre, South Dakota 57501
Attention: SRF Section

Borrower: City of Rapid City
300 Sixth Street
Rapid City, South Dakota 57701
Attention: Finance Officer

Trustee: The First National Bank in Sioux Falls
100 South Phillips, Post Office Box 5186
Sioux Falls, South Dakota 57117-1186
Attention: Corporate Trust Department

Any of the above parties may, by notice in writing given to the others, designate any further or different addresses to which subsequent notices or other communications shall be sent.

Section 10.2. Binding Effect. This Loan Agreement shall inure to the benefit of and shall be binding upon the District, the Borrower and their respective successors and assigns.

Section 10.3. Severability. If any provision of this Loan Agreement shall be determined to be unenforceable at any time, it shall not affect any other provision of this Loan Agreement or the enforceability of that provision at any other time.

Section 10.4. Amendments. So long as this Loan Agreement is pledged as security for the Bonds, this Loan Agreement may not be effectively amended without the written consent of the Trustee and in accordance with the provisions of the Indenture.

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

Section 10.6. Captions. The captions in this Loan Agreement are for convenience only and do not define or limit the scope or intent of any provisions or Sections of this Loan Agreement.

Section 10.7. No Liability of Individual Officers, Directors or Trustees. No recourse under or upon any obligation, covenant or agreement contained in this Loan Agreement shall be had against any member of the governing board, officer or employee, as such, past, present or future, of the District or the State, either directly or through the District, or against any officer, or member of the governing body or employee of the Borrower, past, present or future, as an individual so long as such individual was acting in good faith. Any and all personal liability of every nature, whether at common law or in equity, or by statute or by constitution or otherwise,

of any such officer or member of the governing body or employee of the District or the State or the Borrower is hereby expressly waived and released by the Borrower and by the District as a condition of and in consideration for the execution of this Loan Agreement.

Section 10.8. Counterparts. This Loan Agreement may be signed in several counterparts. Each will be an original, but all of them together constitute the same instrument.

Section 10.9. Benefit of Bondholders and Credit Enhancers; Compliance With Indenture. All covenants, agreements and representations on the part of the Borrower and the District, as set forth in this Loan Agreement, are hereby declared to be for the benefit of the Holders from time to time of the Bonds and all Credit Enhancers. The Borrower covenants and agrees to do all things within its power in order to comply with and to enable the District to comply with all requirements and to fulfill and to enable the District to fulfill all covenants of the Indenture. Each Credit Enhancer is a third-party beneficiary of those provisions herein which relate to the making of payments or following the directions of or giving of notice to or consent by or the performance of other acts to benefit it, and all such provisions shall be enforceable by each Credit Enhancer.

Section 10.10. Payments Due on Holidays. If the date for making any payment or the last date for performance of any act or the exercise of any right, as provided in this Loan Agreement, shall be a legal holiday or a day on which banking institutions in the State are required or authorized by law to remain closed, such payments may be made or act performed or right exercised on the next succeeding day not a legal holiday or a day on which such banking institutions are required or authorized by law to remain closed with the same force and effect as if done on the nominal date provided in this Loan Agreement.

Section 10.11. Right of Others To Perform Borrower's Covenants. In the event the Borrower shall fail to make any payment or perform any act required to be performed hereunder, then and in each such case the District, the Trustee, any Credit Enhancer or the provider of any Collateral Document may (but shall not be obligated to) remedy such default for the account of the Borrower and make advances for that purpose. No such performance or advance shall operate to release the Borrower from any such default and any sums so advanced by the District, any Credit Enhancer, the Trustee or the provider of any Collateral Document shall be paid immediately to the party making such advance and shall bear interest at the prime or corporate base rate of the Trustee plus 2% (or, if this Loan Agreement no longer secures any Bonds, of Citibank, N.A.) from the date of the advance until repaid. The District, any Credit Enhancer, the provider of any Collateral Document and the Trustee shall have the right to enter the Project or the facility or facilities of which the Project is a part or any other facility which is a part of the Borrower's System in order to effectuate the purposes of this Section.

Section 10.12. No Trustee or Credit Enhancers if All Bonds Paid. If all the Bonds are paid within the meaning of the Indenture, the Trustee will release to the District all its rights hereunder, and thereafter any right or duty of the Trustee or any Credit Enhancer hereunder shall be the right or duty of the District.

IN WITNESS WHEREOF, the District, by the Board of Water and Natural Resources, has caused this Loan Agreement to be signed in its name by its Chairman and Secretary and the corporate seal of the District has been hereunto affixed, and the Borrower has caused this Loan Agreement to be signed in its name by its authorized officers, as of the day and year first above written.

SOUTH DAKOTA CONSERVANCY DISTRICT

By: _____
Its: Chairman

Attest:

Its: Secretary

CITY OF RAPID CITY, SOUTH DAKOTA
as Borrower

By: _____
Title: Finance Officer

By: _____
Title: Mayor

Countersigned on behalf of Borrower by:

Title: Resident Attorney

Accepted and agreed to by:

THE FIRST NATIONAL BANK IN
SIOUX FALLS, as Trustee

By: _____
Title: Vice President and Trust Officer

APPENDIX A

DESCRIPTION OF THE PROJECT

The city of Rapid City is proposing a major expansion of the city's wastewater treatment plant and the construction of a facility to co-compost wastewater treatment plant biosolids with municipal solid waste. The proposed project components are: (1) pretreatment, including bar screens, septage and sulfide control improvements; (2) primary treatment improvements; (3) secondary treatment improvements, including the addition of combined activated sludge process train; (4) tertiary treatment; (5) ultraviolet disinfection; (6) biosolids treatment and disposal, including co-composting with municipal solid waste; and (7) the construction of a new administration building.

The Borrower hereby certifies that the description of the property, improvements and activities set forth above constitutes an accurate description of the property, improvements and activities the costs of which are being financed, refinanced or reimbursed pursuant to the attached Loan Agreement. In case any portion of the Project is being refinanced, an accurate description of such debt and the dates on which it will be paid from proceeds of the Loan are also set forth above.

City of Rapid City, South Dakota
Borrower

By: _____
Title: Finance Officer
Dated: _____, 2001

APPENDIX B

FORM OF BORROWER BOND

FOR VALUE RECEIVED, the undersigned City of Rapid City, South Dakota (the "Borrower"), promises to pay, but only from the sources described herein, to the order of the South Dakota Conservancy District (the "District"), or its successors and assigns, the principal sum equal to the sum of the amounts entered on Schedule A hereto under "Total Amount Advanced," with interest on each such amount from the date such amount is advanced hereunder at the rate of 3.50% per annum on the unpaid balance until paid. In addition, the Borrower shall pay an Administrative Expense Surcharge on the outstanding principal amount of this Borrower Bond at a rate of 1.00% per annum. The said principal and interest and Administrative Expense Surcharge shall be payable in 80 installments, each payable on the fifteenth of each January, April, July and October (each such date for payment of principal, interest or Administrative Expense Surcharge is referred to herein as a "Loan Repayment Date") commencing on the first Loan Repayment Date occurring after the Initial Loan Amortization Date plus an initial payment representing accrued interest payable on January 15, 2002, all subject to revision as required by Section 5.1 of the Loan Agreement (as defined below) if the Initial Loan Amortization Date occurs before January 15, 2002. Each installment shall be in the amount set forth opposite its due date in Schedule B hereto under "Total Loan Payment." The portion of each such payment consisting of principal, the portion consisting of interest and the portion consisting of Administrative Expense Surcharge shall be as set forth in Schedule B hereto. Upon each disbursement of Loan amounts to the Borrower pursuant to the Loan Agreement described below, the District shall enter (or cause to be entered) the amount advanced on Schedule A under "Advances" and the total amount advanced under the Loan Agreement, including such disbursement under "Total Amount Advanced." The District shall prepare Schedule B and revised Schedules B, or cause Schedule B and revised Schedules B to be prepared, as provided in Section 5.1 of the Loan Agreement described below. Schedule B shall be calculated and recalculated on a substantially level annual debt service basis assuming an interest rate of 4.50% per annum. Past-due payments of (i) principal and interest and (ii) the Administrative Expense Surcharge shall bear interest at the rate of 8% per annum, compounded on each Loan Repayment Date, until paid. Interest on the unpaid principal amount hereof and Administrative Expense Surcharge shall be calculated on the basis of a 360-day year made up of 12 months of 30 days each.

All payments under this Borrower Bond shall be payable at the principal corporate trust office of The First National Bank in Sioux Falls, in Sioux Falls, South Dakota, or such other place as the District may designate in writing.

This Borrower Bond is issued pursuant to and is secured by a certain Loan Agreement, dated the date hereof (the "Loan Agreement"), by and between the Borrower and the District, the terms and provisions of which are incorporated herein by reference.

The Borrower shall not prepay any principal payment set forth on Schedule B hereto any more than 15 days prior to the due date set forth in Schedule B, unless the District consents in writing to such prepayment. If the District consents to a prepayment, such prepayment must be

accompanied by payment of accrued interest and Administrative Expense Surcharge to the date of prepayment on the amount of principal prepaid. If the Loan is prepaid in part, principal payments shall be reduced in inverse order of maturity. A prepayment without the District's consent shall be returned to the Borrower.

The Borrower irrevocably pledges to the District to secure the Borrower's obligation to pay all amounts payable under this Borrower Bond all income and revenues of its System, including, without limitation, fees charged to the users for System service, penalties, and hook-up fees, sign-up fees, proceeds of business interruption insurance, proceeds of the sale of property constituting part of such system and investment income on all such revenues, provided there shall be excluded from such pledge the proceeds of any grant or loan from the State or the United States, and any investment income thereon, to the extent such exclusion is a condition to such grant or loan.

All payments of principal of and interest on this Borrower Bond and other payment obligations of the Borrower hereunder shall be limited obligations of the Borrower payable solely out of the income and revenues described in the preceding paragraph and shall not be payable out of any other revenues of the Borrower. The issuance of this Borrower Bond shall not cause the indebtedness of the Borrower to exceed or violate any State constitutional or statutory limitation on indebtedness and shall never constitute or give rise to a charge against the Borrower's general credit or taxing power.

This Borrower Bond is issued pursuant to South Dakota Codified Laws Chapters 9-40 and 6-8B and any acts amendatory thereto and a resolution of the Borrower adopted on February 5, 2001, and is subject to all the provisions and limitations of such Chapters 9-40 and 6-8B, any amendatory acts and such Resolution. Accordingly, pursuant to SDCL § 9-40-18 the taxing powers of the Borrower may not be used to pay any Loan Repayment, and no funds or property of the Borrower other than those referred to in the preceding paragraph may be used to pay Loan Repayments, except as may be otherwise provided by law.

In the event of default in the payment of this Borrower Bond and if the same is collected by an attorney at law, the Borrower agrees to pay all costs of collection, including a reasonable attorneys' fee.

The Borrower hereby waives presentment for payment, demand, protest, notice of protest and notice of dishonor.

This Borrower Bond and all instruments securing the same are to be construed according to the laws of the State of South Dakota. Signed and sealed this ____ day of _____, 2001.

[SEAL]

City of Rapid City, South Dakota

By: _____
Title: Mayor

Attest:

By: _____
Title: Finance Officer

Countersigned by:

Title: Resident Attorney

Pursuant to the Master Trust Indenture dated as of January 1, 1994, as supplemented, by and between the District and The First National Bank in Sioux Falls, Sioux Falls, South Dakota, as Trustee (the "Indenture"), and Section 8.2 of the Loan Agreement, the District hereby assigns, grants and conveys any and all of the District's rights, title and interest in this Borrower Bond to The First National Bank in Sioux Falls and any successor Trustee, except as otherwise provided in the Granting Clauses of the Indenture.

Dated: _____, 2001.

SOUTH DAKOTA CONSERVANCY DISTRICT

By: _____

Title: Chairman

Attest:

Title: Secretary

SCHEDULE A

SCHEDULE OF AMOUNTS ADVANCED

<u>Date</u>	<u>Advances</u>	<u>Total Amount Advanced</u>	<u>Notation Made By</u>
_____	_____	_____	
_____	_____	_____	
_____	_____	_____	
_____	_____	_____	
_____	_____	_____	
_____	_____	_____	
_____	_____	_____	
_____	_____	_____	
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_____	_____	_____	
_____	_____	_____	
_____	_____	_____	
_____	_____	_____	
_____	_____	_____	
_____	_____	_____	
_____	_____	_____	
_____	_____	_____	
_____	_____	_____	

SCHEDULE B

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Administrative Expense Surcharge</u>	<u>Total Loan Payment</u>
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APPENDIX B-1

FORM OF FIRST PARAGRAPH OF BORROWER BOND
IF ENTIRE AMOUNT OF LOAN IS DISBURSED AT CLOSING

FOR VALUE RECEIVED, the undersigned the City of Rapid City, South Dakota (the "Borrower"), promises to pay, but only from the sources herein described, to the order of the South Dakota Conservancy District (the "District"), or its successors and assigns, the principal sum of \$14,000,000 with interest on each such amount from the date of this Borrower Bond at the rate of 3.50% per annum on the unpaid balance until paid. In addition, the Borrower shall pay an Administrative Expense Surcharge on the outstanding principal amount of this Borrower Bond at a rate of 1.00% per annum. The said principal and interest and the Administrative Expense Surcharge shall be payable in 80 installments, each payable on the fifteenth day of each January, April, July and October (each such date for payment of principal, interest or Administrative Expense Surcharge is referred to herein as a "Loan Repayment Date") commencing on the Initial Loan Amortization Date. Each installment shall be in the amount set forth opposite its due date in Schedule A hereto under "Total Loan Payment." The portion of each such payment consisting of principal, the portion consisting of interest and the portion consisting of Administrative Expense Surcharge shall be as set forth in schedule A hereto. Past-due payments of (i) principal and interest and (ii) Administrative Expense Surcharge shall bear interest at the rate of 8% per annum, compounded on each Loan Repayment Date, until paid. Interest and Administrative Expense Surcharge shall be calculated on the basis of a 360-day year made up of 12 months of 30 days each.

APPENDIX C

ADDITIONAL REPRESENTATIONS AND COVENANTS

None

APPENDIX D

OPINION OF BOND COUNSEL
(Revenue Obligation)

[NOTE: any of the opinions given below may be given in reliance upon the opinion of another Bond Counsel; and one Bond Counsel may give some of the opinions and another Bond Counsel may give others.]

[Date of Loan Closing]

South Dakota Conservancy District
c/o South Dakota Department of Environment and Natural Resources
Division of Financial and Technical Assistance
Joe Foss Building
523 East Capitol Avenue
Pierre, South Dakota 57501

The First National Bank in Sioux Falls
100 South Phillips, Post Office Box 5186
Sioux Falls, South Dakota 57117-1186

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the execution and delivery by the City of Rapid City, South Dakota, a political subdivision organized under the laws of the State of South Dakota (the "Borrower") of a Loan Agreement dated _____, 2001 (the "Loan Agreement") between the Borrower and the South Dakota Conservancy District (the "District") and the issuance of a bond dated _____, 2001 (the "Borrower Bond") by the Borrower to the District. All terms used in this opinion letter and not defined shall have the meanings given to them in the Loan Agreement.

In this connection, we have examined the following:

(a) a certified copy of the resolution adopted by the governing body of the Borrower on _____, 2001 (the "Resolution"), pursuant to which the Loan Agreement and Borrower Bond are to be entered into;

(b) an executed counterpart of the Loan Agreement;

(c) the executed Borrower Bond;

(d) a photocopy supplied by the District of executed counterparts of the Master Trust Indenture dated as of January 1, 1994 between the District and The First National Bank in Sioux Falls, as trustee (the "Trustee"), and the Series Resolutions (identified in such Loan Agreement); and

(e) such other documents as we deemed relevant and necessary in rendering this opinion.

As to questions of fact material to our opinion we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

Based upon the foregoing we are of the opinion that:

1. The Borrower is a political subdivision duly organized and validly existing under the laws of the State of South Dakota.

2. The Borrower is (i) a governmental unit, as such term is used in Section 145(a) of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) a Public Entity, as defined in South Dakota Codified Laws § 46A-2-4.

3. The Resolution authorizing the issuance of the Borrower Bond, the execution and delivery of the Loan Agreement and the pledge of Net Revenues to secure payment of the Borrower Bond has been duly approved by the governing body of the Borrower.

4. The Borrower has the power and authority to enter into the Loan Agreement, to issue the Borrower Bond, to borrow the entire Committed Amount pursuant to the Loan Agreement and Borrower Bond and to perform its obligations under the Loan Agreement and the Borrower Bond.

5. The Loan Agreement and the Borrower Bond have been duly authorized, executed and delivered by the Borrower and are, and would be if the entire Committed Amount were advanced to the Borrower pursuant to the Loan Agreement on the date of this opinion, valid and legally binding special obligations of the Borrower, payable solely from the sources provided therefor in the Loan Agreement, enforceable in accordance with their respective terms, except to the extent that the enforceability thereof may be limited by laws relating to bankruptcy, insolvency or other similar laws affecting creditors' rights generally and general principles of equity.

6. Pursuant to Chapter 9-40, South Dakota Codified Laws (the "Act"), the Resolution and Loan Agreement create a valid lien on the funds pledged by the Loan Agreement for the security of the Loan Agreement and Borrower Bond and no other Debt of the Borrower is secured by a superior lien on such funds.

7. The Borrower has obtained or made all approvals, authorizations, consents or other actions of, and filings, registrations or qualifications with, the Borrower or any other government authority which are legally required to allow the Borrower to enter into and perform its obligations under the Loan Agreement and the Borrower Bond and borrow the full Committed Amount pursuant to the Loan Agreement and Borrower Bond.

8. Any portion of the Project which is currently in existence complies with Sections 6.3(b), 6.3(e) and 6.3(f) of the Loan Agreement.

9. The execution and delivery of the Loan Agreement and the Borrower Bond and the performance by the Borrower of its obligations thereunder will not, assuming the Borrower complies with all of its covenants in the Loan Agreement, adversely affect the excludability of interest on the Bonds from gross income for purposes of federal income taxation or cause the interest on the Bonds to be an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations.

10. Under existing laws, regulations, judicial decisions and published rulings, the interest on the Borrower Bond is (i) excluded from gross income for federal income tax purposes and (ii) not a specific preference item for purposes of the federal alternative minimum tax imposed on individuals and corporations. Interest on the Borrower Bond, however, will be included in the adjusted current earnings of certain corporations, and such corporations are required to include such interest in the calculation of alternative minimum taxable income. The opinions set forth in this paragraph are subject to continuing compliance by the parties to the documents described herein with the covenants in such documents regarding federal tax law. Failure to comply with such covenants could cause the interest on the Borrower Bond to be included in gross income for purposes of federal income taxation retroactively to the date of execution and delivery of the Borrower Bond.

The accrual or receipt of the interest on the Borrower Bond may otherwise affect the federal income tax liability of the recipient. The extent of these other tax consequences will depend upon the recipient's particular tax status or other items of income or deduction. We express no opinion regarding any such consequences, and investors should consult their tax advisors regarding the tax consequences of purchasing or holding the Borrower Bond.

Very truly yours,

APPENDIX E

CERTIFICATION OF COMPLIANCE WITH RATE COVENANT
Wastewater Revenue Obligation

Pursuant to Section 6.4 of the Revenue Obligation Loan Agreement dated _____, 2001 (the "Loan Agreement") between the South Dakota Conservancy District (the "District") and the City of Rapid City, South Dakota (the "Borrower"), the Borrower hereby certifies as follows to the District (terms used in this Certificate and not defined are to have the meanings assigned to them in the attached "Definitions Used in Certification of Compliance with Rate Covenant"):

(1) For fiscal year _____ the Borrower's Net Wastewater Revenues Available for Debt Service were \$ _____; and

(2) For fiscal year _____ the Borrower's Total Debt Service for such fiscal year secured by Wastewater Revenues were \$ _____; and

(3) The amount in (1) _____ divided by the amount in (2) equals _____%.

Submitted on behalf of the City of Rapid City, South Dakota, on this _____ day of _____, 2001, by:

Title: Finance Officer

DEFINITIONS USED IN CERTIFICATION
OF COMPLIANCE WITH RATE COVENANT

The purpose of this certificate is to demonstrate that the Borrower is charging sufficient revenues (i.e., System rates, storm drainage fees or tipping fees) to cover both the operation and maintenance expenses of the system (i.e., wastewater fund, storm drainage fund or solid waste fund), or portion thereof, whose revenues are pledged toward repayment of this loan, PLUS, ALL debt service payments secured by that system's revenues, including, but not limited to, this State Revolving Fund Loan.

(1) Net Revenues Available for Debt Service: equals the Borrower's Gross Revenues of the particular system's fund pledged toward repayment of this State Revolving Fund Loan LESS those expenses directly associated with the operation and maintenance of that system. Large capital expenditures, depreciation, and debt service are not to be included in the general O & M expenses of the fund. Items such as employee salaries and benefits, usual and customary repairs and utility bills (electric, phone, propane) are considered as normal expenses associated with the general O & M of the fund. Storm Drainage Funds do not normally have associated operation and maintenance expenses. The Gross Receipts to the Storm Drainage fund, unless designated for other purposes, will generally equal the Net Revenues Available for Debt Service.

(2) Total Debt Service: equals total loan repayments (principal and interest) paid out of the fund pledged as security for this State Revolving Fund Loan. Debt service paid on any other debt also secured by this fund is to be included in the total.

(3)
$$\frac{\text{Net Revenues Available For Debt Service}}{\text{Total Debt Service}} = \underline{\hspace{2cm}} \%$$