

25

August 26, 2009

Mr James Preston
Finance Officer
City of Rapid City
300 Sixth Street
Rapid City, South Dakota 57701-5035

Dear Mr. Preston:

The purpose of this letter is to outline the proposed underwriting fees, roles and responsibilities of RBC Capital Markets Corporation for the City of Rapid City (the "City") Water Improvement Revenue Bonds, Series 2009 (the "Bonds").

It is our understanding that the City anticipates issuing its Bonds as fixed or variable rate bonds in the approximate principal amount of \$41 million. The bonds will be issued either as tax-exempt bonds or as a combination of tax-exempt bonds and taxable Build America Bonds.

Proposed Fees

As stated in our Underwriting Fee Proposal dated July 21, 2009, we are proposing a fee of approximately \$3.82 per bond, or .382 percent of the principal amount, for fixed rate bonds. The calculation of this fee is shown below.

Underwriter's Discount		Detailed Underwriting Expenses	
Management Fee	\$0.00	CUSIP	\$0.010 \$428
Average Takedown	3.70	SIFMA	0.030 1,230
Expenses*	0.12	DTC	0.005 188
Total	\$3.82	i-Deal	0.050 2,050
		Day Loan	0.028 1,139
		Total	\$0.123 \$5,035

As shown in the tables above, RBC Capital Markets is not charging a management fee. We will calculate the final average takedown and expenses at the time of pricing of the bonds. These fees assume the bonds are sold with a credit rating of "A2" or better from Moody's Investors Service.

We are proposing a fee of approximately \$1.82 per bond, or .182 percent of the principal amount, for variable rate bonds. The calculation of this fee is shown below.

Underwriter's Discount		Detailed Underwriting Expenses	
Management Fee	\$0.50	CUSIP	\$0.003 \$143
Average Takedown	1.25	SIFMA	0.030 1,230
Expenses*	0.07	DTC	0.005 188
Total	\$1.82	Day Loan	0.028 1,139
		Total	\$0.066 \$2,700

As shown in the tables above, RBC Capital Markets will charge a management fee of \$ 50 per bond and a takedown of \$1.25 per bond. We will calculate the final expenses at the time of pricing of the bonds. In addition, we are proposing an annual remarketing fee of .10 percent of the principal amount of bonds. Our proposed underwriting and remarketing fees for variable rate bonds assume a Letter of Credit is provided by a nationally recognized bank with a short term credit rating in the top category.

Our fees quoted above do not include any travel costs, which would be reimbursable at cost. Our fees also do not include the customary issuer costs including bond counsel, rating fee, advisor and consultant fees, trustee fees, printing or blue sky expenses. Our proposed fee also does not include compensation for underwriter's counsel.

Role and Responsibilities

As your underwriter, RBC Capital Markets will develop a financing plan with the purpose of assisting the City in achieving its financial objectives. Our services shall consist of the following:

- Analyze the financing alternatives available to the Issuer for the issuance of the Bonds and recommend the appropriate financing mechanism;
- Together with the Issuer, and other parties, develop a financing plan consistent with the goals and objectives established by the Issuer;
- Size the Bonds taking into account construction costs, reimbursements to the Issuer, and costs of issuance;
- Assist in the review all documents necessary to implement the issuance of Bonds;
- Structure those terms and conditions for the Bonds such as maturities, coupon rates, call features, and security features, which most advantageously meet demands of current market conditions, meet the objectives of the Issuer, and provide the lowest possible net interest cost;
- Organize and participate in information meetings, if needed, to create investor interest in the Bond issue with retail and institutional clients; and
- Advise the Issuer on the timing of the sale of the Bonds in relation to the market conditions and financing needs; and
- Serve as sole underwriter of the Bonds, which obligation is conditioned upon the execution of a mutually satisfactory bond purchase agreement and other customary documentation, and coordinate with all parties so as to consummate the sale and delivery of the Bonds in a timely manner;
- Coordinate with Financial Advisor to coordinate the most efficient and cost effective method to prepare the Official Statements.

Please sign below acknowledging the approval of the proposed fees, role, and responsibilities.

Yours sincerely,

RBC Capital Markets Corporation

By _____
Stephen J. Yanisch
Managing Director

City of Rapid City, South Dakota

By _____
Alan Hanks
Mayor
Date _____

ATTEST:

James F. Preston, Finance Officer