

February 16, 2010

City of Rapid City, South Dakota
Rapid City, South Dakota

First National Bank in Sioux Falls, South Dakota, as Trustee
Sioux Falls, South Dakota

Ladies and Gentlemen:

This Letter Agreement by and among Morgan Stanley & Co. Incorporated (“MSCO”), First National Bank in Sioux Falls, South Dakota (the “Trustee”) and City of Rapid City, South Dakota (the “City”) sets forth the specific terms for a series of overnight repurchase transactions to be effected between MSCO and the Trustee under the Master Repurchase Agreement by and between MSCO and the Trustee dated as of February 16, 2010, and the Custodial Undertaking In Connection With Master Repurchase Agreement by and among the Bank of New York (the “Custodian”), MSCO and the Trustee dated as of February 16, 2010 (the “Custody Agreement” and together with the Master Repurchase Agreement, the “Master Agreements”). The Trustee, as Buyer, agrees to effect a series of overnight repurchase transactions commencing on February 16, 2010 with MSCO, as Seller, as described below, in Eligible Securities, as defined in Schedule A hereto (each a “Repurchase Transaction”) in accordance with the terms and conditions of this Letter Agreement and the Master Agreements. Terms used herein which are defined in the Master Agreements or the Official Statement (as hereinafter defined) shall have the same meaning herein as in the Master Agreements or the Official Statement.

The City hereby represents and warrants that the Repurchase Transactions contemplated hereunder are a permitted investment under the terms of the Official Statement and are a permitted investment in accordance with any laws, rules, regulations, agreements or instruments applicable to the City. Terms used herein which are defined in the Master Agreements or the Official Statement shall have the same meaning herein as in the Master Agreements or the Official Statement.

1. On February 16, 2010, the Purchase Price of the Repurchase Transaction (the “Transaction Amount”) to be effected shall be Thirty Six Million Nine Hundred Forty Four Thousand Eight Hundred Fifty One Dollars (\$36,944,851) which shall be derived from the City of Rapid City, South Dakota Water Revenue Bonds, Series 2009 (the “Bonds”), created pursuant to South Dakota Codified Laws, Chapter 9-40 and 6-8B and the Resolution as described in the Official Statement dated November 1, 2009 (the “Official Statement”), pursuant to which the City issued the Bonds. During the term hereof, on or about each date specified on the attached Schedule B, the Trustee, at the direction of the City, shall decrease the Purchase Price of the Repurchase Transaction to be effected on such Business Day (a “Transaction Reduction”) by an amount reasonably close in value to the amount specified for such date on the attached Schedule B. The Trustee agrees that the Purchase Price of each Repurchase Transaction hereunder shall be such initial Purchase Price, as subsequently reduced in accordance with the foregoing. The Trustee shall give MSCO at least two (2) Business Days’ notice of such Transaction

Reduction. The Trustee and the City each represent and warrant, on the date hereof and during the term of any Repurchase Transaction, that (i) it will effect, or cause to effect, a Transaction Reduction only for permitted purposes as set forth in the Official Statement, (ii) that Transaction Reductions will be effected hereunder only in regard to distributions required to be made from the Official Statement, (iii) any such Transaction Reductions shall be effected promptly hereunder, (iv) Transaction Reductions shall not be effected for the purpose of reinvesting the proceeds of such Transaction Reductions in alternative investments, and (v) the Repurchase Transactions contemplated hereunder are a permitted investment under the terms of the Official Statement and are a permitted investment in accordance with any laws, rules, regulations, agreements or instruments applicable to the Trustee and the City.

2. The differential between the Purchase Price and the Repurchase Price for each Repurchase Transaction (the "Price Differential") shall be calculated at the rate of Four Hundred Forty Eight One-Thousandths Percent (.448%) on the basis of a 360 day year consisting of twelve (12), thirty (30) day months, until the Termination Date (as hereunder defined). The Price Differential shall be paid semi-annually on the Business Day prior to each May 1 and November 1 and on the Termination Date. Such Price Differential shall be reinvested according to the terms hereof.

3. The Margin Percentage to be used in connection with each Repurchase Transaction shall be One Hundred Two Percent (102%) with regard to such Securities specified on Schedule A and in all cases shall be applied to the Purchase Price of each Repurchase Transaction, including any and all Price Differential accrued with respect thereof.

4. Each Transaction Reduction or payment of Price Differential shall be effected by the parties hereto simultaneously terminating the then outstanding Repurchase Transaction (with an appropriate adjustment of the Repurchase Price) and entering into a new Repurchase Transaction reflecting such Transaction Reduction or payment of Price Differential.

5. MSCO agrees to provide the Trustee and the City with monthly account statements.

6. In the event that the rating of the senior unsecured debt issued or guaranteed by Morgan Stanley shall be suspended or withdrawn by Moody's Investors Service, Inc. ("Moody's") or shall be rated below Baa3 (a "Downgrade Event"), MSCO, in its sole discretion, may either:

- (i) Post additional collateral to maintain this Letter Agreement at an A3 or better rating provided, however, that such posting of additional collateral shall be applicable while Morgan Stanley's ratings are withdrawn or below A3, otherwise the Margin Percentage to be used in connection with each Repurchase Transaction will be One Hundred Two Percent (102%), as specified in Paragraph 3 in this Letter Agreement;
- (ii) Assign this Letter Agreement to an qualified provider acceptable to the City (such acceptance not to be unreasonably withheld),
- (iii) Obtain a guarantee or financial guarantee insurance of MSCO's obligations from an entity acceptable to the City rated at least A3 (such acceptance not to be unreasonably withheld), or;
- (iv) Declare the Termination Date to occur upon five (5) Business Day's written notice to the City. Upon such Termination Date, MSCO shall immediately repay to the Trustee all amounts held by it pursuant to the Repurchase Transaction including any and all Price Differential accrued with respect thereto, as modified by the Termination Amount (as hereinafter defined).

7. For any Event of Default, the defaulting party shall notify non-defaulting parties promptly after it becomes aware that any Event of Default has occurred and is continuing, provided, however, that failure by MSCO to notify the City of a Downgrade Event or that failure by MSCO to take remedial action upon a Downgrade Event as specified in Paragraph 6 of this Letter Agreement without written notice from the City shall not be an Event of Default. All events of default, notification and cure period provisions contained herein shall apply mutually to all parties to the Master Agreements.

8. For the avoidance of doubt, notwithstanding Paragraph 11 of the Master Repurchase Agreement and in lieu of Paragraph 11(g) of the Master Repurchase Agreement, all terminations of the Master Agreements (including but not limited to an Event of Default) shall be subject to the payment of a Termination Amount. If the Termination Amount is a positive number, the City shall pay to MSCO the Termination Amount, and if the Termination Amount is a negative number, MSCO shall pay such Termination Amount to the City.

9. The termination payment amount shall be an amount reasonably determined in good faith by MSCO to be the loss or cost incurred (including, without limitation, loss of bargain and cost of funding) (expressed as a positive number), or gain realized (expressed as a negative number) by MSCO as a result of the termination of this Letter Agreement and MSCO's terminating, liquidating, obtaining or re-establishing any hedge or related trading position ("Termination Amount"). If the City elects to dispute such calculation, MSCO shall seek actionable bids from at least three Recognized Dealers (as hereinafter defined) of the amount, if any, that each such Recognized Dealer would require MSCO to pay to the Recognized Dealer (expressed as a positive number) or would pay to MSCO (expressed as a negative number) in consideration of such Recognized Dealer entering into an agreement with MSCO (with such documentation as MSCO and the Recognized Dealer may in good faith agree) which would have the effect of preserving for MSCO the economic equivalent of its rights under this Letter Agreement for the period commencing on the termination date of this Letter Agreement and terminating on the Termination Date (assuming for these purposes that this Letter Agreement had not terminated on the termination date and continued in full force through the Termination Date). The Termination Amount shall be the arithmetic mean of such quotations without regard to the quotations having the highest and lowest values; provided that if MSCO is unable to obtain three such quotations, the Termination Amount shall be the amount determined in accordance with the first sentence of this Paragraph 9. If such calculation based upon such quotations is not acceptable to MSCO, this Letter Agreement shall not be unwound, but the City may assign this Letter Agreement to any of the Recognized Dealers who provided a bid. If the City does not assign this Letter Agreement within 10 Business Days of notice from MSCO that the calculation is not acceptable, this Letter Agreement shall terminate and the Termination Amount shall be the amount determined in accordance with the first sentence of this Paragraph 9. For the purpose of Paragraph 9 of this Letter Agreement, a "Recognized Dealer" means a firm designated by the Federal Reserve Bank of New York as a primary dealer that conducts a meaningful business in U.S. government securities with whom MSCO has open trading lines with sufficient available capacity to include this Letter Agreement.

10. Notwithstanding Paragraph 9, in the event of a termination pursuant to Paragraph 6, the Termination Amount shall be calculated by MSCO pursuant to the provision of Paragraph 9, provided that MSCO shall determine the loss or gain realized by the City and, if applicable, shall poll Recognized Dealers with respect to entering into an agreement with the City to preserve the economic equivalent to the City of this Letter Agreement.

11. MSCO shall provide to the Trustee and the City a confirmation each time Purchased Securities are (i) delivered by MSCO to the Trustee under this Letter Agreement or the Master Agreement, (ii) substituted pursuant to this Letter Agreement, or (iii) redelivered by the Trustee pursuant

to Section 4 of the Master Agreement, which confirmation shall specify the Purchased Securities being delivered, substituted or redelivered, as the case may be.

12. MSCO shall have the right at any time and from time to time to substitute Eligible Securities having the same or greater Market Value for any Purchased Securities. Notwithstanding anything herein to the contrary, in the event that any Eligible Security transferred to the Trustee hereunder has not been acquired by MSCO free of any adverse liens, claims or encumbrances, upon notice to MSCO, MSCO shall promptly transfer Eligible Securities of not less than equal Market Value to the Trustee in substitution for any Eligible Securities subject to such liens, claims and encumbrances. The Trustee shall thereupon promptly return to MSCO any Eligible Securities for which substitution has been made. MSCO and the Trustee hereby agree that it shall be an Event of Default under the Master Agreements in the event the Trustee fails, or causes the Custodian to fail to accept a substitution of securities from the MSCO pursuant to this Paragraph of this Letter Agreement.

13. This Letter Agreement, the Master Agreements and the provisions hereof and thereof may be changed, waived, discharged or terminated only by an instrument in writing signed by duly authorized officers of the Trustee, the City, and MSCO. The parties agree that no amendments to this Letter Agreement or the Master Agreements (including to the collateral schedule) will be effective unless MSCO has executed and delivered with such amendment a certificate stating that it has analyzed, after consultation with legal counsel, whether the amendment is authorized by the City's investment policy.

14. The City hereby agrees that it will not enter into any amendment, modification or supplement to the Bonds that may materially affect the flow of funds to or from MSCO as contemplated hereby, the position of MSCO hereunder or the Master Agreements without MSCO's express prior written consent.

15. This Letter Agreement and the Repurchase Transaction shall terminate on the earlier of (i) the day on which a Transaction Reduction shall reduce the Purchase Price to zero, (ii) pursuant to the terms of Paragraph 6 hereof, or (iii) March 31, 2012 (collectively, the "Termination Date").

16. To the extent that the terms and conditions of this Letter Agreement conflict with the terms and conditions of the Master Agreements, the terms and conditions of this Letter Agreement shall prevail.

17. It is expressly understood and agreed that MSCO makes no representation as to the authority of the Trustee or the City to enter into or perform under this Letter Agreement and that in performing its obligations hereunder, MSCO is not acting as fiduciary, agent, or other representative for the holders of the Bonds or any other person and that neither MSCO nor its directors, officers, employees, agents or affiliates shall be liable or responsible for:

(i) except as expressly set forth herein, the payment of any amount on or with respect to the Bonds;

(ii) monitoring, investigating, enforcing or reporting on the Trustee's or the City's performance of their respective obligations under the Bonds, this Letter Agreement, the Master Agreements, the Official Statement or any other agreement or instrument with respect thereto or the use or application by the Trustee of any moneys payable to the Trustee hereunder;

(iii) any acts or omissions of the Trustee or the City hereunder or with respect to the validity or enforceability of the Bonds;

- (iv) the tax-exempt status of the Bonds; or
- (v) monitoring, segregating or otherwise separately identifying or accounting for or otherwise concerning itself with the source of the invested funds or the application of moneys in the various funds and accounts created pursuant to the Official Statement.

18. MSCO hereby represents that (a) it will acquire its interest in each Eligible Security to be transferred to the Trustee that is a U.S. Treasury Security in accordance with applicable federal and state law and regulation, (b) it will acquire its interest in each Eligible Security to be transferred to the Trustee that is a Government National Mortgage Association Security in accordance with applicable state law and regulation, (c) to the best of its knowledge, it will acquire each Eligible Security to be transferred to the Trustee free of any adverse liens, claims or encumbrances, (d) it has not and will not create or cause to be created any adverse liens, claims or encumbrances in favor of any third party with respect to any Eligible Security transferred to the Trustee, (e) it will not pledge or otherwise create a security interest in favor of any third party in any Eligible Security transferred to the Trustee and (f) immediately upon the transfer of Purchased Securities to the account of the Trustee in accordance with the terms of the Master Agreements, the Trustee shall at such time either be the owner thereof pursuant to applicable federal and state law and regulation or shall have a first priority perfected security interest in such Purchased Securities free of third party liens, claims or encumbrances, except those liens, claims or encumbrances arising by operation of law in favor of the United States or any agency or instrumentality thereof (including, without limitation, federal tax liens, liens arising under the Employee Retirement Income Security Act of 1974 and liens given priority pursuant to 31 U.S.C. Section 3713) and liens arising by operation of law that are given priority over perfected security interests.

19. This Letter Agreement shall be construed in accordance with the laws of the State of New York without giving effect to conflict of law principles, provided, however, that the capacity of the City and Trustee to enter into such agreement shall be governed by the laws of South Dakota or federal law, as applicable.

20. The City hereby directs MSCO, upon execution of this Letter Agreement, to pay a brokerage fee in the amount of \$22,000 to Springsted Investment Advisors for their role as independent broker in this transaction. This fee is reflected in and has decreased the Price Differential payable by MSCO under this Letter Agreement.

21. The City agrees to provide to the Trustee and MSCO, upon request, but in no case more frequently than quarterly, an updated forecast of Transaction Reductions expected to be effected hereunder over the remaining term hereof.

22. This Letter Agreement may be executed in two or more counterparts which taken together shall be deemed to constitute one and the same agreement.

23. The term "Business Day" as used herein shall mean any day on which the Federal Reserve Bank of New York and the New York Stock Exchange are open for business.

24. Each party waives all rights to jury trial in connection with any dispute arising under the Master Agreements.

25. The City hereby represents that it is not entitled to claim, and shall not assert any claim, with respect to itself or its revenues, assets or property (irrespective of the use or intended use thereof), of immunity on the grounds of sovereignty or similar grounds from suit, jurisdiction of any court, relief by way of injunction, order for specific performance or for recovery of property, attachment of its assets

(whether before or after judgment, in aid of execution, or otherwise) and execution or enforcement of any judgment to which it or its revenues or assets or property might otherwise be entitled in any suit, action or proceeding relating to the Master Agreements in the courts of any jurisdiction, nor may there be attributed to the City or its revenues, assets or property any such immunity (nor shall such attribution be claimed by the City). Each party hereto waives all claims of contractual or other immunity in connection with the Master Agreements.

26. Clauses (v) and (vi) of the first sentence of Paragraph 11 of the Master Repurchase Agreement are hereby amended to read: “(v) an Act of Insolvency occurs with respect to MSCO or City, (vi) any representation made by MSCO or City shall have been incorrect or untrue in any material respect when made or repeated or deemed to have been made or repeated, or”.

27. In the event of a refunding, acceleration, redemption or defeasance of the Bonds, in whole or in part, the City shall immediately notify MSCO and the Master Agreements shall continue in full force and effect only with MSCO’s express written consent. If this Letter Agreement is terminated or the Transaction Amount is reduced in accordance with this Paragraph 27, MSCO shall calculate a Termination Amount in accordance with Paragraph 9 hereof.

If the foregoing sets forth your understanding of the terms and conditions of the Repurchase Transaction, please forward two executed copies of this Letter Agreement and the Master Agreements to us as soon as possible.

Very truly yours,

MORGAN STANLEY & CO. INCORPORATED

By: _____
Name:
Title:

Agreed to and accepted as of the
date set forth above:

CITY OF RAPID CITY, SOUTH DAKOTA

By: _____
Name:
Title:

FIRST NATIONAL BANK IN SIOUX FALLS, SOUTH DAKOTA, as Trustee

By: _____
Name:
Title:

Schedule A

Eligible Securities

United States Treasury Securities

Government National Mortgage Association Securities

* Mortgage-Backed Securities and Collateralized Mortgage Obligations are not eligible securities. FDIC Guaranteed Debt under TLGP are eligible securities.

Trade Mnemonic: ASDRPP

Schedule B

DATE	PROJECT DRAWS
2/28/2010	\$ 312,393
3/31/2010	\$ 312,393
4/30/2010	\$ 312,393
5/31/2010	\$ 312,393
6/30/2010	\$ 312,393
7/31/2010	\$ 312,393
8/31/2010	\$ 312,393
9/30/2010	\$ 2,092,331
10/31/2010	\$ 2,092,331
11/30/2010	\$ 2,092,331
12/31/2010	\$ 2,092,331
1/31/2011	\$ 2,390,683
2/28/2011	\$ 2,390,683
3/31/2011	\$ 2,390,683
4/30/2011	\$ 2,078,290
5/31/2011	\$ 2,078,290
6/30/2011	\$ 2,078,290
7/31/2011	\$ 2,078,290
8/31/2011	\$ 2,078,290
9/30/2011	\$ 2,078,290
10/31/2011	\$ 2,078,290
11/30/2011	\$ 2,078,290
12/31/2011	\$ 298,353
1/31/2012	\$ 298,353
2/29/2012	\$ 298,353
3/31/2012	\$ 298,353