

ESCROW AGREEMENT

THIS ESCROW AGREEMENT (this "Agreement") is made and executed between the City of Billings, Montana (the "City"), and U.S. Bank National Association, in Seattle, Washington (the "Agent"). The parties hereto recite and, in consideration of the mutual covenants and payments referred to and contained herein, covenant and agree as follows:

1. The City, in accordance with a resolution of its City Council adopted on August 23, 2010, sold its General Obligation Refunding Bonds, Series 2010, dated, as originally issued, as of August 15, 2010 (the "Series 2010 Bonds"), in the aggregate principal amount of \$1,080,000, which Series 2010 Bonds mature on July 1 in each year from 2011 to 2020, for the purpose of providing funds for the refunding, paying and redeeming of the City's General Obligation Bonds, Series 2000, dated, as originally issued, as of April 1, 2000 (the "Series 2000 Bonds") with stated maturities in 2011 and thereafter, outstanding as of the date hereof in the aggregate principal amount of \$1,105,000 (the "Refunded Bonds"), including the payment of certain expenses of the refunding, and has directed that the net proceeds of the Series 2010 Bonds (\$1,105,857.98, reflecting an underwriter's discount of \$6,242.40, original issue premium of \$31,072.25, and accrued interest of \$1,028.13) be applied as follows: (i) \$1,075,710.00 (together with the amounts identified in the last sentence of this paragraph) to the payment of the purchase price of securities that are direct obligations of the United States or obligations the principal of and interest on which are guaranteed as to payment by the United States, as shown on Exhibit A hereto (which is hereby incorporated herein and made a part hereof) (the "Initial Securities") for credit to the Escrow Account, (ii) \$0.18 to establish a beginning cash balance in the Escrow Account; (iii) \$29,119.67 to the payment of costs of issuance of the Series 2010 Bonds and the refunding of the Refunded Bonds, and (iv) \$1,028.13 for deposit into the debt services account for the Series 2010 Bonds to pay interest on such bonds on January 1, 2011. The City has appropriated \$[45,183] of the funds in the debt service account for the Series 2000 Bonds for payment of a portion of the purchase price of the Initial Securities.

2. The Agent acknowledges receipt of the federal securities and cash described in Exhibit A hereto (which is hereby incorporated herein and made a part hereof) and agrees that it will hold such federal securities and cash in a special escrow account in the name of the City (the "Escrow Account") and will collect and receive on behalf of the City all payments of principal of and interest on such securities and will remit from the Escrow Account to the City, the funds required for the payment of principal of the Refunded Bonds and interest thereon as shown on the attached Exhibit B (which is hereby incorporated herein and made a part hereof), and will also transfer any funds remaining in the Escrow Account to the City for deposit in its debt service account in respect of the Series 2010 Bonds.

The Agent shall:

(i) not less than 35 days prior to October 5, 2010, cause notice of the redemption of the Refunded Bonds to be redeemed (in the form of Exhibit C hereto) to be delivered by first class mail, postage prepaid, or telecopy to D.A. Davidson & Co., of Great Falls, Montana; to The Depository Trust Company of New York, New York; and to

one or more national information services that disseminate information regarding municipal bond redemptions, all as required by Section 2.05 of the resolution of the City Council of the City adopted March 27, 2000 authorizing the issuance of the Refunded Bonds (the "2000 Resolution"); and

(ii) not less than 30 days prior to October 5, 2010, cause notice of the redemption of the Refunded Bonds with stated maturities in the years 2011 and thereafter (in the form of Exhibit C hereto, which is hereby incorporated herein and made a part hereof) to be mailed, by first class mail, postage prepaid, to the institution at which principal and interest are then payable, and to the owners of all Refunded Bonds at their addresses as they appear on the attached Exhibit D, all as required by Section 2.05 of the 2000 Resolution.

After provision for payment of all Refunded Bonds with interest accrued thereon, the Agent will remit any remaining funds in the Escrow Account to the City, which will hold said sum of cash in the Debt Service Account for application toward the payment of the interest to become due on the Series 2010 Bonds on January 1, 2011.

The City has received a certification from Springsted Incorporated, St. Paul, Minnesota that the sum of the cash and investments shown on Exhibit A hereto (i.e., \$1,120,893.18) is adequate as of the date hereof and without investment earnings thereon to pay all of the principal of and interest on the Refunded Bonds on October 5, 2010.

3. The federal securities described in Exhibit A hereto may, at the written direction of the City, be replaced, in whole or in part, with direct obligations of the United States and which mature as to principal and interest in such amounts and at such times as will assure the availability of sufficient moneys to make payment when due of the principal and redemption price of the Refunded Bonds, at the stated maturities or upon the redemption thereof, plus interest on the Refunded Bonds to the respective maturity or redemption date thereof; provided, however, that concurrently with such written direction, the City shall provide the Agent with (a) a certification of an independent certified public accountant as to the sufficiency of the federal securities to be subject to this Agreement following such replacement and as to the yields thereof, setting forth in reasonable detail the calculations underlying such certification, and (b) an unqualified opinion of nationally recognized bond counsel to the effect that such replacement (1) will not cause any Refunded Bond or the Series 2010 Bond to be subjected to treatment as an "arbitrage bond," as defined in Section 148(a) of the Internal Revenue Code of 1986, as amended ("the Code"), and (2) is otherwise in compliance with this Agreement and the 2000 Resolution.

Any replacement authorized by this Section 3 shall be accomplished by sale, transfer, request for redemption or other disposition of all or a portion of the federal securities described in Exhibit A hereto with the proceeds thereof being applied to the purchase of substitute federal securities, all as specified in the written direction of the City.

4. The Agent also acknowledges receipt of the sum of Five Hundred Dollars (\$500.00), as and for full compensation for all services to be performed by it as Agent under this Agreement. The Agent expressly waives any lien upon or claim against the moneys and investments in the Escrow Account.

5. On or before November 5, 2010, the Agent shall submit to the City a report covering all money it shall have received and all payments it shall have made or caused to be made hereunder.

6. It is recognized that title to the federal securities and moneys held in the Escrow Account from time to time shall remain vested in the City but subject always to the prior charge and lien thereon of this Agreement and the use thereof required to be made by the provisions of this Agreement. The Agent shall hold all such money and obligations in the Escrow Account as a special trust fund and account separate and wholly segregated from all other funds and securities of the Agent on deposit therein and shall never commingle such money or securities with other money or securities. It is understood and agreed that the responsibility of the Agent under this Agreement is limited to the safekeeping and segregation of the funds and securities deposited with it in the Escrow Account and the collection of and accounting for the principal and interest payable with respect thereto.

7. This Agreement is made by the City for the benefit of the owners of the Refunded Bonds and is not revocable by the City, and the investments and other funds deposited in the Escrow Account and all income therefrom have been irrevocably appropriated for the payment and redemption of the Refunded Bonds and interest thereon, in accordance with this Agreement.

8. This Agreement shall be binding upon and shall inure to the benefit of the City and the Agent and their respective successors and assigns. In addition, this Agreement shall constitute a third-party beneficiary contract for the benefit of the owners of the Refunded Bonds. Said third-party beneficiaries shall be entitled to enforce performance and observance by the City and the Agent of the respective agreements and covenants herein contained as fully and completely as if said third-party beneficiaries were parties hereto. Any bank or trust company into which the Agent may be merged or with which it may be consolidated or any bank or trust company resulting from any merger or consolidation to which it shall be a party or any bank or trust company to which it may sell or transfer all or substantially all of its corporate trust business shall, if the City approves, be the successor agent hereunder without the execution of any additional document or the performance of any further act.

IN WITNESS WHEREOF the parties hereto have caused this Escrow Agreement to be duly executed by their duly authorized officers, as of the August 30, 2010.

CITY OF BILLINGS, MONTANA

\_\_\_\_\_  
Mayor

\_\_\_\_\_  
Financial Services Manager

\_\_\_\_\_  
City Clerk

U.S. BANK NATIONAL ASSOCIATION,  
as Escrow Agent

By \_\_\_\_\_  
Its Vice President

(Signature page to Escrow Agreement, dated August 30, 2010,  
with the City of Billings, Montana)

\$1,080,000  
General Obligation Refunding Bonds, Series 2010  
City of Billings, Montana

EXHIBIT A

Initial Cash Balance: \$0.18

Initial Securities:

*U.S. Treasury Obligations*  
*—State and Local Government Series (SLGS)*

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
10/05/2010	\$1,120,893.00	0.130%

\$1,080,000  
General Obligation Refunding Bonds, Series 2010  
City of Billings, Montana

EXHIBIT B

DEBT SERVICE SCHEDULE FOR  
REFUNDED BONDS

<u>Redemption Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
10/05/2010	\$1,105,000.00	\$15,893.18	\$1,120,893.18

EXHIBIT C

NOTICE OF REDEMPTION

General Obligation Bonds, Series 2000  
(the "Series 2000 Bonds")

Dated, as originally issued, as of April 1, 2000  
City of Billings, Montana

NOTICE IS HEREBY GIVEN that the City of Billings, Montana, has called for redemption all bonds of the issue of the Series 2000 Bonds which mature on July 1 in the years and bear interest and CUSIP numbers as set forth below:

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>CUSIP No</u>
2011	\$85,000	5.25%	090095 C57
2012	90,000	5.25	090095 C65
2013	95,000	5.30	090095 C73
2014	100,000	5.35	090095 C81
2015	105,000	5.40	090095 C99
2016	115,000	5.55	090095 D23
2017	120,000	5.60	090095 D31
2018	125,000	5.65	090095 D49
2019	130,000	5.70	090095 D56
2020	140,000	5.75	090095 D64

Such bonds in their entirety have been called for redemption on October 5, 2010, at the redemption price of the principal amount thereof plus interest accrued to the date of redemption, without premium.

Holders of such bonds maturing in said years should surrender their bonds for payment to the City of Billings, Montana, as paying agent, for payment on October 5, 2010 to the Financial Services Manager at 210 North 27th Street, Billings, Montana 59103 or if by mail to 210 North 27th Street, Billings, Montana 59103.

Under the Jobs and Growth Tax Relief Reconciliation Act of 2003, federal backup withholding tax will be withheld at the applicable backup withholding rate in effect at the time the payment is made if the tax identification number is not properly certified.

The Paying Agent shall not be held responsible for the selection or use of the CUSIP number, nor is any representation made as to its correctness indicated in the Redemption Notice. It is included solely for the convenience of the Holders.

Interest on such Bonds shall cease to accrue on October 5, 2010, and the holders thereof shall have no further rights with respect thereto except to receive the redemption price so deposited.

Dated: August 30, 2010.

BY ORDER OF THE CITY COUNCIL  
OF THE CITY OF BILLINGS, MONTANA

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City Financial Services Manager

EXHIBIT D

HOLDERS OF REFUNDED BONDS AND ADDRESSES