

NOTICE
TO HOLDERS OF:

CITY OF MONTICELLO, MINNESOTA
\$26,445,000 TELECOMMUNICATIONS REVENUE BONDS, SERIES 2008
(FIBERNET MONTICELLO PROJECT)

CUSIP NOS.

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At its meeting held June 13, 2013, the City Council of the City of Monticello, Minnesota (the "City"), issuer of \$26,445,000 Telecommunications Revenue Bonds (FiberNet Monticello Project), Series 2008 (the "Bonds") issued under a Trust Indenture dated as of June 1, 2008 (the "Indenture"), between the City and Wells Fargo Bank, National Association (the "Trustee"), adopted a resolution approving the attached Term Sheet for Settlement (the "Term Sheet"). The Term Sheet describes a basis for resolving in advance of litigation of claims asserted and litigation threatened by the Trustee and certain bondholders relating to the Bonds. The claims have been denied, and continue to be denied, by the City.

The Term Sheet is not legally binding and any definitive settlement agreement must be approved by the City Council, the Trustee and certain bondholders. Implementation of the settlement will also require court approval.

The Term Sheet contemplates payment by the City of \$5,750,000 in satisfaction of all claims against the City and the discharge of the City's obligations under the Indenture, including its pledge of Net Revenues (as defined by the Indenture) from its broadband communications system. The system has not produced Net Revenues and no payments have been made to bondholders since June 1, 2012. The settlement also contemplates the distribution of certain other funds held by the Trustee under the Indenture. The Term Sheet does not allocate the settlement amount among current holders and former holders of Bonds. If approved, the settlement amount will be allocated and distributed among holders of Bonds by a distribution agent appointed by the court.

Instructions to current and former holders of Bonds on the implementation of the settlement will be furnished at a later date.

The City will endeavor to provide periodic updates to holders through written notices regarding the matters discussed herein.

Dated: June 14, 2013

CITY OF MONTICELLO, MINNESOTA

By /s/ Jeff O'Neill
Its City Administrator

**CITY OF MONTICELLO, MINNESOTA
TELECOMMUNICATIONS REVENUE BONDS
(FIBERNET MONTICELLO PROJECT), SERIES 2008**

**TERM SHEET FOR SETTLEMENT
DATED AS OF JUNE 13, 2013**

Wells Fargo Bank, National Association, as Trustee ("Trustee") for the Monticello Telecommunications Revenue Bonds, Series 2008 ("Bonds"), Schiff Hardin as counsel to Trustee, and Schiff Hardin as counsel to one or more representative holders of the Bonds (collectively "Representative Class Members") (Schiff Hardin, acting in such capacity, "Bondholders' Counsel"), asserted claims and threatened to file litigation imminently against the City of Monticello ("City"), alleging securities fraud and other causes of action related to the City's nonpayment to bondholders. The City denied, and continues to deny, the merit of such claims. Nevertheless, the City, the Trustee and certain Bondholders entered into an Agreement to toll (suspend) the statute of limitations governing those claims in order to facilitate negotiations which might resolve the Trustee's and Bondholders' claims.

Counsel for the parties negotiated in good faith to resolve all claims in advance of filing the threatened litigation. Through a series of settlement negotiations, the counsel for the parties developed an agreement in principle ("Settlement Agreement") regarding the essential terms of a settlement ("Settlement"), to be presented to their respective clients for approval. This term sheet summarizes the essential terms of the Settlement Agreement recommended by counsel to the City, counsel to the Trustee and Bondholders Counsel, and which has already been approved by the "Ad Hoc Bondholders Committee," which authorized the Trustee to enter this term sheet. Accordingly, Counsel for the City will present the Settlement to the Monticello City Council for its review and approval at a public Council meeting to be held on June 13, 2013.

By approving this term sheet, the City Council will authorize its legal counsel to generate and finalize a Settlement Agreement document in accordance with the provisions below. If the parties intend to incorporate a provision in the Settlement Agreement that is materially different from the terms below, legal counsel for the City will return to the City Council for approval before finalizing the settlement agreement.

The terms and conditions set forth in this term sheet shall be provided for in three documents: a Settlement Agreement, a petition to be filed by the Trustee in a trust instruction proceeding in state court in Minnesota ("TIP"), and a class action lawsuit and settlement stipulation to be filed by Bondholders Counsel in Federal District Court in Minnesota ("Class Action") to establish an opt-out procedure for the putative class members, as necessary. This term sheet does not create legally binding obligations of any party. Any settlement is subject to final documentation and becomes final upon appropriate execution.

All capitalized terms used herein and not otherwise defined in this term sheet have the meanings given to such terms in that certain Indenture of Trust dated as of June 1, 2008

(“Indenture”), between the City of Monticello and Wells Fargo Bank, National Association, as Trustee.

Additionally, as used herein, the following terms shall have the following meanings:

- “Bondholders”:** means holders from time to time of the Bonds.
- “Class”:** means the Bondholders who bought in the original offering of the Bonds on or around June 19, 2008, or who purchased Bonds from such holders or their transferees.
- “Directing Holders”:** means the Class members who do not opt out of the securities class action settlement, being not less than holders of (i) at least 90% in aggregate principal amount of all Outstanding Bonds on the date the Class Action is filed, and (ii) at least 90% in aggregate principal amount of all Bonds held (at any time to and including the date the Class Action is filed) in the aggregate by members of the Class.
- “Parties to Settlement”:** The City, the Trustee and Bondholders’ Counsel
- Principal Terms of Settlement:** The City, the Trustee, and Bondholders’ Counsel agree to the settlement amount covering all claims and obligations arising out of or under the Indenture, contingent on, among other things, approval by the Directing Holders of the settlement described below.
- Directing Holders will agree in the Class Action to release all claims against the City arising from the City’s actions and inaction related to the Bonds, including but not limited to claims arising under the Indenture, claims arising under federal and state securities laws, common law fraud and misrepresentation claims, and any claims in law or equity, known or unknown at this time, which were asserted or could have been asserted at any time against the City based, directly or indirectly, upon the Bonds.
- Directing Holders will also agree in the Class Action to release all claims, if any, against the Trustee relating to the Bonds and the Indenture, and any claims in law or equity, known or unknown at this time, which were asserted or could have been asserted at any time against the City based, directly or indirectly, upon the Bonds or the Indenture.
- The Trustee will release the City from its liens and all obligations

respecting the Indenture and the Bonds as described below in the heading “Trust Instruction Proceeding”).

Settlement Amount:

- (i) The City agrees to pay into a settlement fund for distribution to the Directing Holders and payment of attorneys’ fees and other expenses of Bondholders’ Counsel a single payment of \$5,750,000 (“Settlement Amount”) no later than one hundred days after the later of (i) the date that a final, nonappealable order is entered in the Class Action (“Class Action Order”), or (ii) the date that a final, nonappealable order is entered in the TIP.
- (ii) The parties agree that, as part of the settlement, the City will cede its interest, if any, in any funds remaining in the trust funds held under the Indenture (the “Trust Funds”).¹ The Trustee will be authorized to distribute the Trust Funds to all holders of the Bonds as of a special record date to be established under the Indenture following the approval of the Settlement by the court in the Class Action and immediately following the approval of the Settlement by the TIP Court, reserving therefrom all then unpaid Trustee’s fees, costs and expenses, including attorneys’ and other professional advisors’ fees. The distribution shall be made as required by the Indenture.

Trust Instruction Proceeding:

The Trustee will file, within ten (10) days following the entry of the Class Action Order, a petition to commence the TIP in the Fourth Judicial District Probate/Mental Health Court in Hennepin County, Minnesota (“TIP Court”) for an order pursuant to Minnesota Statutes, §501B.16. The parties acknowledge and agree that the TIP petition will ask the Court to issue a final, nonappealable order that:

- (i) Terminates and discharges the Indenture and the related trust;
- (ii) Transfers the Bonds held by the Directing Holders to the City with the effect that the Directing Holders no longer have any interest in the Bonds;
- (iii) Approves the Settlement described in the *Principal Terms of Settlement* and related contingencies set forth in this term sheet;
- (iv) Forever discharges the City from any and all other obligations and covenants arising under the Indenture (except any covenants that require the consent of each affected bondholder), including discharging the liens created in favor of the Trustee in “Net Revenues”. In addition, the court shall forever discharge the City from any other agreements governing the Bonds held

¹ The Trustee does not acknowledge that the City has any interest in any of the Trust Funds.

by the Directing Holders or at law; and

- (v) Releases the Trustee from any and all obligations to the City and all holders of the Bonds arising under the Indenture, and any other agreements governing the Bonds or at law.

The TIP petition and the form of order shall be subject to review and approval by the City before it is filed by the Trustee with the TIP Court.

It shall be a condition precedent to the City's obligations under the Settlement and to pay the Settlement Amount that, through the TIP, the TIP Court shall issue a final order consistent with the provisions above.

***Amendment of
Indenture***

In the event that the Settlement is approved in the Class Action but the TIP Court does not approve the TIP petition and/or does not issue a final, nonappealable order consistent with the provisions in the "Trust Instruction Proceeding" section of this term sheet, the Trustee will file an alternative petition to commence a TIP in the Fourth Judicial District Probate/Mental Health Court in Hennepin County, Minnesota ("TIP Court") for an order pursuant to Minnesota Statutes, §501B.16. The TIP petition will ask the Court to issue a final, nonappealable order that approves the amendment of the Indenture, pursuant to Section 11.02 of the Indenture, to cancel, extinguish, and discharge all liens, covenants and obligations of the City arising under the Indenture (except any covenants that require the consent of each affected bondholder), permitting the City to operate FiberNet Monticello free and clear of Trustee and bondholder claims. The amendment will provide that the Directing Holders who currently hold Bonds will transfer their Bonds to the City. The opt-out bondholders will retain their Bonds, but will have no lien on the Net Revenues of FiberNet Monticello or otherwise. The Trustee reserves its right under Section 11.03 of the Indenture to receive an opinion of counsel that the amendment is permitted by the Indenture.

In the event that this alternative provision is invoked, it shall be a condition precedent to the City's obligations under the Settlement and to pay the Settlement Amount that the amendment of the Indenture shall be in form and substance satisfactory to the City and the Trustee.

***Class Action
Settlement***

The Representative Class Members, by Bondholders' Counsel, will file a class action lawsuit against the City in the Federal District

Court in Minnesota. The Representative Class Members will also file a motion with the Court seeking approval to appoint Schiff Hardin LLP as Class Counsel.

The Representative Class Members will then file a class action settlement stipulation, stipulating that the parties have reached a settlement of all securities fraud and misrepresentation claims arising under the offering statement respecting the Bonds (the “Offering Statement”) and/or related to the City’s issuance or execution of the Bonds or in any way arising from the Bonds.

The Representative Class Members will then seek an approval order for judgment sufficient to support the City’s application for a judgment bond from the Federal District Court:

- (i) Conditionally certifying a Class for settlement purposes only, consisting of all members of the Class;
- (ii) Approving the method of notice of class certification and settlement as set forth in this term sheet and in the Settlement Agreement;
- (iii) Setting the “Notice Deadline;”
- (iv) Approving the method and deadlines for intervention, objection or exclusion from the proposed Settlement;
- (v) Scheduling a Fairness Hearing to determine whether the proposed Settlement should be approved as fair, reasonable and adequate;
- (vi) Preliminarily approving the Settlement; and
- (vii) Setting a bar order of any claims brought by third parties against the City;

provided, however, that the parties have agreed in this term sheet and will agree in the Settlement Agreement that it shall be a condition precedent to the City’s obligations under the Settlement and to pay the Settlement Amount that the Directing Holders approve the Settlement in the Class Action. For clarity, the Settlement and the Settlement Agreement will be null and void if, due to opt-out bondholders, the holdings of the members of the Class which approve the Settlement hold less than 90% of the aggregate principal amount of all Outstanding Bonds on the date the class action is filed or hold less than 90% of the principal amount of all Bonds held in the

aggregate by members of the Class.

Assuming that the Directing Holders approve the Settlement, and after the Federal District Court has granted preliminary approval of the Settlement, the parties shall jointly request that the Court issue a final order approving Settlement respecting the Class.

Bar Order

As part of the Class Action settlement, the Federal District Court will issue a bar order discharging the City's obligations to the settlement class of Directing Holders and barring all future claims for contribution or indemnification by third parties against the City related to claims brought by any member of the settlement Class of Directing Holders related to the Bonds.

***Protection against
Claims of Third
Parties***

In addition and consistent with the bar order, the parties will execute a release as part of the settlement agreement (in the style of a "Pierringer" release), protecting the City from claims by third parties related to the actions giving rise to the Trustee and the Directing Holders' claims. The Trustee and the Directing Holders agree to indemnify and hold the City harmless if any of the settlement class of Directing Holders brings a claim against a third party and the third party sues the City for indemnification or contribution.

Mutual Releases:

The parties to the settlement agreement will execute and deliver mutual releases of claims.

Tolling Agreement:

The Tolling Agreement between the City, the Trustee and the Bondholders named therein executed on April 4, 2013 ("Tolling Agreement"), shall be deemed extended without any further action of the parties thereto to a date which is sixty (60) days after the date that a final, nonappealable order is issued in the Class Action denying the relief set forth in the Settlement. The Tolling Agreement shall be terminated without further action of the parties on the date that the City pays the Settlement Amount.

No Liability Provision:

The parties will agree that this Settlement was a compromise of a disputed claim; by entering this settlement with the Trustee, the City will not admit to any liability whether within the settlement documentation, the TIP proceeding, the class action proceeding, or any other related settlement document or event.

Opt Out Rebate:

For any member of the potential settlement class who opts-out of the settlement, the Trustee shall, at the time the City makes the Settlement Payment, refund to the City the amount of the Settlement Payment to which the Bondholder or former Bondholder would be entitled to receive in the Class Action, determined by assuming that

such Bondholder had not opted-out of the Settlement in the Class Action.

Attorneys' Fees

Each party to the Settlement Agreement will bear its own costs, fees and other expenses, including attorneys' fees in connection with this term sheet, the Settlement Agreement, the Class Action and the TIP.

Any attorneys' fees awarded to Class Counsel in connection with this Settlement (i) must be approved by the Federal District Court, (ii) will be paid entirely out of settlement funds to Class Counsel, (iii) will not reduce the Settlement Amount, and (iv) will not increase the Settlement Amount or otherwise be the responsibility of the City. Class Counsel will make an application for attorneys' fees with the Federal District Court based upon the "lodestar" method, which is derived from a review of the hours spent by the attorney involved and a decision as to what a reasonable hourly fee is for the work performed.

Payment of Trustee's Fees and Expenses:

The Trustee will pay all of its fees, costs and expenses, including attorneys' fees, solely from the Trust Funds. The Trustee shall have no lien on or interest in the Settlement Amount.

Settlement Distribution

The distribution agent appointed by the court in the Class Action (which could be the Trustee) will be responsible for allocating and distributing the Settlement Amount to the Directing Holders. The Trustee and Bondholders' Counsel acknowledge and agree that the City has no obligations or responsibilities regarding the allocation or distribution of the Settlement Amount or the Trust Funds or related to any disputes that may arise regarding the allocation or distribution of the Settlement Amount or of the Trust Funds, including for any tax consequences that may result from the allocation or distribution of the Settlement Amount or of the Trust Funds. The Trustee and the Directing Holders agree to indemnify the City against any claims brought by Class Members or opt-out bondholders against the City that in any way relate to the allocation or distribution of the Settlement Amount or the Trust Funds.

CITY OF MONTICELLO, MINNESOTA

By: _____

Title: _____

WELLS FARGO BANK, NATIONAL ASSOCIATION, as trustee

By: _____

Title: _____

SCHIFF HARDIN, LLP, as Bondholder Counsel

By: _____

Title: _____