

316 System Revenue Fund

317 The term "System Revenue Fund" means the fund by that name created pursuant to
318 Section 5.2 hereof.

319 System Revenues

320 The term "System Revenues" means all gross income and revenue received or receivable
321 by the City from the ownership or operation of the System, determined in accordance with
322 Generally Accepted Accounting Principles, including all fees (including connection fees), rates,
323 charges and all amounts paid under any contracts received by or owed to the City in connection
324 with the operation of the System and investment income allocable to the System and all proceeds
325 of insurance relating to the System and all other income and revenue howsoever derived by the
326 City from the ownership or operation of the System or arising from the System.

327 Tax Certificate

328 "Tax Certificate" means collectively all the certificates, each dated the date of the original
329 issuance and delivery of the Certificates, with respect to the requirements of certain provisions of
330 the Code, as each such certificate may from time to time be modified or supplemented in
331 accordance with the terms thereof.

332 Trust Agreement

333 The term "Trust Agreement" means the Trust Agreement, dated March 27, 2008, by and
334 among the City, the Corporation and the Trustee, as it may from time to time be amended or
335 supplemented in accordance with its terms.

336 Trustee

337 The term "Trustee" means initially Treasurer of the City, acting in its capacity as Trustee
338 under and pursuant to the Trust Agreement. As provided under the Trust Agreement, under
339 certain circumstances a third party financial institution may or shall be required to be appointed
340 Trustee.

341 Written Request of the City

342 "Written Request of the City" means an instrument in writing signed by the chief
343 executive or chief financial officer of the City or their designee, or by any other officer of the
344 duly authorized by the City for that purpose, such authorization to be evidenced at the request of
345 the Trustee by a certificate verifying the specimen signatures of such officers.

346

ARTICLE II

347

REPRESENTATIONS AND WARRANTIES

348

349 Section 2.1. Representations by the City. The City makes the following
350 representations:

351 (a) The City is a public agency duly organized and existing under and pursuant to the
352 laws of the State of California. The City has full legal right, power and authority to enter into
353 this Agreement and carry out its obligations hereunder, to carry out and consummate all
354 transactions contemplated by this Agreement, and the City has complied with the provisions of
355 the Law in all matters relating to such transactions. By proper action, the City has duly
356 authorized the execution, delivery and due performance of this Agreement.

357 (b) The City will not take or, permit any action to be taken which results in the
358 interest paid for the installment purchase of the Project under the terms of this Agreement being
359 included in the gross income of the Corporation or its assigns for purposes of federal or State of
360 California income taxation.

361 (c) The City has determined that it is necessary and proper for City uses and purposes
362 within the terms of the Law that the City finance and/or refinance the acquisition of the Project
363 in the manner provided for in this Agreement.

364 Section 2.2. Representations and Warranties by the Corporation. The Corporation
365 represents and warrants that the Corporation is a nonprofit public benefit corporation duly
366 organized and in good standing under the laws of the State of California, has full legal right,
367 power and authority to enter into this Agreement and to carry out and consummate all
368 transactions contemplated by this Agreement and by proper action has duly authorized the
369 execution, delivery and due performance of this Agreement.

370 ARTICLE III

371 ACQUISITION OF THE PROJECT

372
373 Section 3.1. Sale and Purchase of Project. In consideration for the Corporation's
374 assistance in refinancing those components of the Project constituting refinancing of existing
375 public capital improvements and in reimbursing those components of the Project constituting
376 reimbursement to the City for certain costs relating to the Project, the City agrees to sell, and
377 hereby sells, to the Corporation, and the Corporation agrees to purchase and hereby purchases,
378 from the City, said portion of Project at the purchase price equal to the net proceeds of the
379 Certificates.

380 In consideration for the Installment Payments as set forth in Section 4.2, the Corporation
381 agrees to sell, and hereby sells, to the City, and the City agrees to purchase, and hereby
382 purchases, from the Corporation, the Project at the purchase price specified in Section 4.1 hereof
383 and otherwise in the manner and in accordance with the provisions of this Agreement.

384 Section 3.2. Title. All right, title and interest in the Project shall vest in the City
385 immediately upon execution and delivery of this Agreement.

386 Section 3.3. Changes to the Project. The City may at any time substitute other public
387 capital improvements for the then existing components of the Project by submitting a Written
388 Request of the City to the Corporation and the Trustee specifying the components of the Project
389 to be substituted and the new components. The City shall certify that such components are of
390 substantially equal value as the substitute components.

391 ARTICLE IV
392
393

INSTALLMENT PAYMENTS

394 Section 4.1. Purchase Price.

395 The Purchase Price to be paid by the City hereunder to the Corporation is the sum of the
396 principal amount of the City's obligations hereunder plus the interest to accrue on the unpaid
397 balance of such principal amount from the effective date hereof over the term hereof, subject to
398 prepayment as provided in Article VII. The Purchase Price also includes the obligation to pay to
399 the Corporation the Special Payments and the Additional Payments.

400 The principal amount of the payments to be made by the City hereunder is set forth in
401 Exhibit B hereto.

402 The interest to accrue on the unpaid balance of such principal amount is as specified in
403 Section 4.2 and Exhibit B hereto, and shall be paid by the City as and constitutes interest paid on
404 the principal amount of the City's obligations hereunder.

405 Section 4.2. Installment Payments, Special Payments and Additional Payments. The
406 City shall, subject to any rights of prepayment provided in Article VII, pay the Corporation the
407 Purchase Price in installment payments of interest and principal in the amounts and on the
408 Installment Payment Dates as set forth in Exhibit B hereto. The City shall also pay to the
409 Corporation the Special Payments equal to an additional (1/10th) of the average annual
410 Installment Payments each year so long as the Certificates are outstanding. The Special
411 Payments shall be deposited by the Trustee in the Reserve Fund to the extent the amount on
412 deposit therein is less than the Reserve Requirement and then the Renewal and Extension Fund
413 as set forth in Section 5.03 of the Trust Agreement.

414 Each Installment Payment and Special Payment shall be paid to the Corporation in lawful
415 money of the United States of America. In the event the City fails to make any of the payments
416 required to be made by it under this Section, such payment shall continue as an obligation of the
417 City until such amount shall have been fully paid; and the City agrees to pay the same with
418 interest accruing thereon at the rate or rates of interest then applicable to the remaining unpaid
419 principal balance of the Installment Payments if paid in accordance with their terms.

420 The obligation of the City to make the Installment Payments and Special Payments from
421 System Net Revenues is absolute and unconditional, and until such time as the Purchase Price
422 shall have been paid in full (or provision for the payment thereof shall have been made pursuant
423 to Article IX), the City will not discontinue or suspend any Installment Payments required to be
424 made by it under this Section when due, whether or not the System or any part thereof is
425 operating or operable or has been completed, or its use is suspended, interfered with, reduced or
426 curtailed or terminated in whole or in part, and such payments shall not be subject to reduction
427 whether by offset or otherwise and shall not be conditional upon the performance or
428 nonperformance by any party of any agreement for any cause whatsoever.

429 The City shall not be obligated to make payments hereunder or incur any liability as a
430 result of the default of any other public agency under an Installment Purchase Agreement, the

431 obligations under which have been assigned to the Trustee under the Trust Agreement in
432 connection with the Certificates.

433 In addition to the Installment Payments, the City shall also pay such amounts
434 ("Additional Payments") as shall be required for the payment of all fees and administrative costs
435 of the Corporation and the Trustee relating to the Certificates, including without limitation all
436 expenses, compensation and indemnification of the Corporation and the Trustee payable by the
437 City hereunder and under the Trust Agreement, fees of auditors, accountants, attorneys or
438 engineers, and all other necessary administrative costs of the Corporation or charges required to
439 be paid by it to comply with the terms hereof (including the fees of the arbitrage calculations
440 service, if any, related to Section 4.02 of the Tax Certificate), of the Certificates or of the Trust
441 Agreement or to indemnify the Corporation and its employees, officers and directors and the
442 Trustee; *provided* that the foregoing obligation shall be limited to those amounts reasonably
443 allocable to the City.

444 ARTICLE V

445 SECURITY

446
447 Section 5.1. Pledge of System Net Revenues. All System Net Revenues and all
448 amounts on deposit in the System Revenue Fund are hereby irrevocably pledged to the payment
449 of the Installment Payments and Special Payments as provided herein and the System Net
450 Revenues shall not be used for any other purpose while any of the Installment Payments and
451 Special Payments remain unpaid; provided that out of the System Revenues there may be
452 apportioned such sums for such purposes as are expressly permitted herein. This pledge,
453 together with the pledge created by all other Parity Debt, including the 2005 Installment
454 Purchase Agreement, shall constitute a first lien on System Net Revenues and, subject to
455 application of amounts on deposit therein as permitted herein, the System Revenue Fund and
456 other funds and accounts created hereunder for the payment of the Installment Payments and all
457 other Parity Debt in accordance with the terms hereof and of the Trust Agreement.

458 Section 5.2. Allocation of System Revenues. In order to carry out and effectuate the
459 pledge and lien contained herein, the City agrees and covenants that all System Revenues shall
460 be received by the City in trust hereunder and shall be deposited when and as received in a
461 special fund designated as the "System Revenue Fund", which fund is hereby established and
462 which fund the City agrees and covenants to maintain and to hold separate and apart from other
463 funds so long as any Installment Payments and Special Payments remain unpaid. To the extent
464 the City has an existing fund or funds which satisfy the foregoing requirements, then such shall
465 be deemed to be the "System Revenue Fund" and the City shall not be required to create a new
466 fund. The City may maintain separate accounts within the System Revenue Fund. The amounts
467 in the System Revenue Fund shall be invested in Authorized Investments. Moneys in the System
468 Revenue Fund shall be used and applied by the City as provided in this Agreement.

469 The City shall, from the moneys in the System Revenue Fund, pay all Operation and
470 Maintenance Costs (including amounts reasonably required to be set aside in contingency
471 reserves for Operation and Maintenance Costs, the payment of which is not then immediately
472 required) as such Operation and Maintenance Costs become due and payable. Thereafter, all

473 remaining moneys in the System Revenue Fund shall be set aside by the City at the following
474 times for the transfer to the following respective special funds in the following order of priority;
475 and all moneys in each of such funds shall be held in trust and shall be applied, used and
476 withdrawn only for the purposes set forth in this Section.

477 (a) Installment Payments. Not later than each Installment Payment Date, the City
478 shall, from the moneys in the System Revenue Fund, transfer to the Trustee the Installment
479 Payment due and payable on that Installment Payment Date and shall make the Special Payment.
480 The City shall also, from the moneys in the System Revenue Fund, transfer to the applicable
481 trustee for deposit in the respective payment fund, without preference or priority, and in the
482 event of any insufficiency of such moneys ratably without any discrimination or preference, any
483 other Parity Obligation Payments in accordance with the provisions of any Parity Obligation.

484 (b) Surplus. Moneys on deposit in the System Revenue Fund not necessary to make
485 any of the payments required above, may be expended by the City at any time for any purpose
486 permitted by law, including but not limited to payments with respect to Subordinate Obligations
487 and deposits to the Rate Stabilization Fund.

488 Section 5.3. Additional Parity Debt. The City may at any time enter into any Parity
489 Debt; provided:

490 (a) The City shall be in compliance with all agreements, conditions, covenants and
491 terms contained herein and in all Supplemental Agreements required to be observed or
492 performed by it, and a Certificate of the City to that effect shall have been filed with the Trustee.

493 (b) The Parity Debt shall have been duly authorized pursuant to the Law and all
494 applicable laws, and the amount on deposit in the Reserve Fund relating to the Parity Debt shall
495 be increased to an amount at least equal to the Reserve Fund Requirement as calculated with
496 respect to such Parity Debt; *provided* that if such Parity Debt shall not be Installment Payments,
497 then a reserve account held by an independent trustee (who may be other than the Trustee) shall
498 be established in an amount equal to the lesser of the maximum annual debt service of such
499 Parity Debt (calculated on the basis of a year ending on the principal payment date of such Parity
500 Debt) or the maximum amount permitted under the Code; *provided further* that, if such Parity
501 Debt is a loan from a governmental agency, then a reserve account shall be established in the
502 amount required or permitted by such governmental agency.

503 (c) The System Net Revenues for the last completed Fiscal Year or any 12
504 consecutive months within the last 18 months preceding the date of execution of such Parity
505 Debt, as shown by a Certificate of the City on file with the Trustee, plus an allowance for
506 increased System Net Revenues arising from any increase in the rates, fees and charges of the
507 System which was duly adopted by the governing board of the City prior to the date of the
508 execution of such Parity Debt but which, during all or any part of such 12 month period, was not
509 in effect, in an amount equal to the amount by which the System Net Revenues would have been
510 increased if such increase in rates, fees and charges had been in effect during the whole of such
511 12 month period, as shown by a Certificate of the City on file with the Trustee, shall have
512 produced a sum equal to at least 120% percent of the Maximum Annual Debt Service as
513 calculated after the execution of such Parity Debt; *provided*, that in the event that all or a portion

514 of such Parity Debt is to be issued for the purpose of refunding and retiring any Parity Debt then
515 outstanding, interest and principal payments on the Parity Debt to be so refunded and retired
516 from the proceeds of such Parity Debt being issued shall be excluded from the foregoing
517 computation of Maximum Annual Debt Service; *provided further*, that the City may at any time
518 issue a Parity Debt without compliance with the foregoing conditions if the Annual Debt Service
519 for each Fiscal Year during which such Parity Debt is outstanding will not be increased by
520 reason of the issuance of such Parity Debt; *provided further*, an adjustment shall be made in the
521 amount of System Net Revenues as provided in Section 5.4 hereof.

522 Nothing contained in this Section shall limit the issuance of any revenue bonds of the
523 City payable from the System Net Revenues and secured by a lien and charge on the System Net
524 Revenues if, after the issuance and delivery of such revenue bonds, none of the Installment
525 Payments shall be unpaid. Furthermore, nothing contained in this Section shall limit the issuance
526 of any Subordinate Obligations.

527 Section 5.4. Rate Stabilization Fund. The City may establish a special fund to be
528 known as the "Rate Stabilization Fund" which shall be held by the City. The City may, during or
529 within 210 days after a Fiscal Year, deposit surplus System Net Revenues transferred from the
530 System Revenue Fund attributable to such Fiscal Year (on the basis of Generally Accepted
531 Accounting Principles) into the Rate Stabilization Fund. The City may at any time withdraw
532 moneys from the Rate Stabilization Fund and deposit such amounts into the System Revenue
533 Fund. Notwithstanding anything to the contrary provided herein, System Net Revenues
534 deposited into the Rate Stabilization Fund shall not be taken into account as System Net
535 Revenues for purposes of the calculations in Sections 5.3 and 6.8(b) in the Fiscal Year to which
536 such deposit is attributable, and amounts withdrawn from the Rate Stabilization Fund and
537 deposited into the System Revenue Fund, during or within 210 days after a Fiscal Year, may be
538 taken into account as System Revenues for purposes of the calculations required under Sections
539 5.3 and 6.8(b) in such Fiscal Year; provided that, for purposes of the calculation required under
540 Section 6.8(b), the amount of System Net Revenues before any credits for withdrawals from the
541 Rate Stabilization Fund may not be less than 100% of Maximum Annual Debt Service for
542 outstanding Parity Debt; *provided further* that the foregoing provisions shall be subject to the
543 rate stabilization fund provisions of any Parity Debt outstanding as of the date hereof. The
544 amounts in the Rate Stabilization Fund shall be invested in the Authorized Investments.

545 ARTICLE VI

546 COVENANTS OF THE CITY

548 Section 6.1. Punctual Payment. The City will punctually pay the Installment Payments
549 and Special Payments in strict conformity with the terms hereof and will faithfully satisfy,
550 observe and perform all agreements, conditions, covenants and terms hereof and of any
551 Supplemental Agreements.

552 Section 6.2. Legal Existence. The City will use all means legally available to maintain
553 its existence.

554 Section 6.3. Against Encumbrances. The City will not mortgage or otherwise
555 encumber, pledge or place any charge upon any of the System Net Revenues except as provided
556 herein, and will not issue any obligations secured by System Net Revenues senior to the Parity
557 Debt; *provided*, that the City may at any time issue any Subordinate Obligations.

558 Section 6.4. Against Sale or Other Disposition of the System. The City will not sell or
559 otherwise dispose of the System or any part thereof essential to the proper operation of the
560 System or to the maintenance of the System Net Revenues, unless the Installment Payments have
561 been fully paid or provision has been made therefor in accordance with Article 9.1 hereof. The
562 City will not enter into any lease or agreement which impairs the operation of the System or any
563 part thereof necessary to secure adequate System Net Revenues for the payment of the
564 Installment Payments, or which would otherwise impair the rights of the Owners with respect to
565 the System Net Revenues or the operation of the System.

566 Section 6.5. Maintenance and Operation of System. The City will maintain and
567 preserve the System in good repair and working order at all times and will operate the System in
568 an efficient and economical manner.

569 Section 6.6. Insurance.

570 (a) The City will procure and maintain at all times insurance on the System against
571 such risks (including accident to or destruction of the System) as are usually insured in
572 connection with operations similar to the System and, to the extent such insurance is available
573 for reasonable premiums from a reputable insurance company, such insurance shall be adequate
574 in amount and, as to the risks insured against, shall be maintained with responsible insurers;
575 *provided*, that such insurance coverage may be satisfied under a self-insurance program which is
576 actuarially sound.

577 (b) The City shall procure and maintain or cause to be procured and maintained
578 public liability insurance covering claims against the City (including its directors, officers and
579 employees) for bodily injury or death, or damage to property occasioned by reason of the City's
580 operations, including any use of the System, and such insurance shall afford protection in such
581 amounts as are usually covered in connection with operations similar to the System; *provided*,
582 that such insurance coverage may be satisfied under a self-insurance program which is
583 actuarially sound.

584 (c) If all or any part of the System shall be damaged or destroyed the Net Proceeds
585 realized by the City therefrom shall be deposited by the City with the Trustee in a special fund
586 which the Trustee shall establish as needed in trust and applied by the City to the cost of
587 acquiring and constructing additions, betterments, extensions or improvements to the System if
588 (A) the City first secures and files with the Trustee a Certificate of the City showing (i) the loss
589 in annual System Revenues, if any, suffered, or to be suffered, by the City by reason of such
590 damage or destruction, (ii) a general description of the additions, betterments, extensions or
591 improvements to the System then proposed to be acquired and constructed by the City from such
592 proceeds, and (iii) an estimate of the additional System Revenues to be derived from such
593 additions, betterments, extensions or improvements; and (B) the Trustee has been furnished a
594 Certificate of the City, certifying that such additional System Revenues will sufficiently offset on

595 a timely basis the loss of System Revenues resulting from such damage or destruction so that the
596 ability of the City to pay Installment Payments when due will not be substantially impaired, and
597 such Certificate of the City shall be final and conclusive, and any balance of such proceeds not
598 required by the City for such purpose shall be deposited in the System Revenue Fund and applied
599 as provided in Section 5.2 hereof, *provided*, that if the foregoing conditions are not met, then
600 such proceeds shall be deposited with the Trustee and applied to make Installment Payments as
601 they come due and Parity Obligation Payments as they shall become due; *provided further* that
602 the foregoing procedures for the application of Net Proceeds shall be subject to any similar
603 provisions for Parity Debt on a pro rata basis.

604 If such damage or destruction has had no effect, or at most an immaterial effect, upon the
605 System Revenues and the security of the Installment Payments, and a Certificate of the City to
606 such effect has been filed with the Trustee, then the City shall forthwith deposit such proceeds in
607 the System Revenue Fund, to be applied as provided in Section 5.2 hereof.

608 Section 6.7. Eminent Domain Proceeds. If all or any part of the System shall be taken
609 by eminent domain proceedings, the Net Proceeds realized by the City therefrom shall be
610 deposited by the City with the Trustee in a special fund which the Trustee shall establish as
611 needed in trust and applied by the City to the cost of acquiring and constructing additions,
612 betterments, extensions or improvements to the System if (A) the City first secures and files with
613 the Trustee a Certificate of the City showing (i) the loss in annual System Revenues, if any,
614 suffered, or to be suffered, by the City by reason of such eminent domain proceedings, (ii) a
615 general description of the additions, betterments, extensions or improvements to the System then
616 proposed to be acquired and constructed by the City from such proceeds, and (iii) an estimate of
617 the additional System Revenues to be derived from such additions, betterments, extensions or
618 improvements; and (B) the Trustee has been furnished a Certificate of the City, certifying that
619 such additional System Revenues will sufficiently offset on a timely basis the loss of System
620 Revenues resulting from such eminent domain proceedings so that the ability of the City to pay
621 Installment Payments when due will not be substantially impaired, and such Certificate of the
622 City shall be final and conclusive, and any balance of such proceeds not required by the City for
623 such purpose shall be deposited in the System Revenue Fund and applied as provided in
624 Section 5.2 hereof, *provided*, that if the foregoing conditions are not met, then such proceeds
625 shall be deposited with the Trustee and applied to make Installment Payments as they come due
626 and Parity Obligation Payments as they shall become due; *provided further* that the foregoing
627 procedures for the application of Net Proceeds shall be subject to any similar provisions for
628 Parity Debt on a pro rata basis.

629 If such eminent domain proceedings have had no effect, or at most an immaterial effect,
630 upon the System Revenues and the security of the Installment Payments, and a Certificate of the
631 City to such effect has been filed with the Trustee, then the City shall forthwith deposit such
632 proceeds in the System Revenue Fund, to be applied as provided in Section 5.2 hereof.

633 Section 6.8. Amounts of Rates, Fees and Charges.

634 (a) The City will, at all times while any of the Installment Payments remain unpaid,
635 fix, prescribe and collect rates, fees and charges and manage the operation of the System for each
636 Fiscal Year so as to yield System Revenues at least sufficient, after making reasonable

637 allowances for contingencies and errors in the estimates, to pay the following amounts during
638 such Fiscal Year:

639 (i) All current Operation and Maintenance Costs.

640 (ii) The Installment Payments and the payments for the other Parity Debt and
641 the Repayment Obligations and the payment of the Subordinate Obligations as they
642 become due and payable.

643 (iii) All payments required for compliance with the terms hereof, including
644 restoration of the Reserve Fund to an amount equal to the Reserve Fund Requirement,
645 and the terms of any Supplemental Trust Agreement.

646 (iv) All payments to meet any other obligations of the City which are charges,
647 liens or encumbrances upon, or payable from, the System Net Revenues.

648 (b) In addition to the requirements of the foregoing subsection (a) of this Section, the
649 City will, at all times while any Installment Payments remain unpaid, to the maximum extent
650 permitted by law, fix, prescribe and collect rates, fees and charges and manage the operation of
651 the System for each Fiscal Year so as to yield System Net Revenues during such Fiscal Year
652 equal to at least 120% per cent of the Annual Debt Service in such Fiscal Year; *provided*, an
653 adjustment shall be made to the amount of System Net Revenues as provided in Section 5.4
654 hereof.

655 The City may make or permit to be made adjustments from time to time in such rates,
656 fees and charges and may make or permit to be made such classification thereof as it deems
657 necessary, but shall not reduce or permit to be reduced such rates, fees and charges below those
658 then in effect unless the System Revenues from such reduced rates, fees and charges will at all
659 times be sufficient to meet the requirements of this Section.

660 Section 6.9. Enforcement of and Performance Under Contracts. The City shall enforce
661 all material provisions of any contracts to which it is a party, an assignee, successor in interest to
662 a party or third-party beneficiary, in any case where such contracts provide for material
663 payments or services to be rendered to the System. Further, the City will comply with, keep,
664 observe and perform all material agreements, conditions, covenants and terms, express or
665 implied, required to be performed by it, contained in all contracts affecting or involving the
666 System, to the extent that the City is a party thereto.

667 Section 6.10. Collection of Charges, Fees and Rates. The City will have in effect at all
668 times rules and regulations requiring each user of the System to pay the applicable charges, fees
669 and rates and providing for the billing thereof and for a due date and a delinquency date for each
670 bill. In each case where such bill remains unpaid in whole or in part after it becomes delinquent,
671 the City will enforce the collection procedures contained in such rules and regulations.

672 Section 6.11. No Free Service. The City will not permit any part of the System or any
673 facility thereof to be used or taken advantage of free of charge by any corporation, firm or
674 person, or by any public agency (including the State of California and any city, county, public

675 agency, political subdivision, public corporation or agency or any thereof), unless otherwise
676 required by law or existing written agreements.

677 Section 6.12. Payment of Claims. The City will pay and discharge any and all lawful
678 claims for labor, materials or supplies which, if unpaid, might become a lien or charge upon the
679 System or upon the System Net Revenues or any part thereof, or upon any funds held by the
680 Trustee, or which might impair the security of the Installment Payments; *provided*, that nothing
681 herein contained shall require the City to make any such payments so long as the City in good
682 faith shall contest the validity of any such claims and such nonpayment will not materially
683 adversely affect the City's ability to perform its obligations hereunder.

684 Section 6.13. Books of Record and Accounts; Financial Statements. The City will keep
685 proper books of record and accounts in which complete and correct entries shall be made of all
686 transactions relating to the System and the System Revenue Fund, and upon request will provide
687 information concerning such books of record and accounts to the Trustee.

688 The City will prepare annually, not later than one hundred eighty (180) days after the
689 close of each Fiscal Year, so long as any Installment Payments remain unpaid, an audited
690 financial statement of the City relating to the System Revenue Fund and all other accounts or
691 funds established pursuant hereto for the preceding Fiscal Year prepared by an Independent
692 Certified Public Accountant, showing the balances in each such account or fund as of the
693 beginning of such Fiscal Year and all deposits in and withdrawals from each such account or
694 fund during such Fiscal Year and the balances in each such account or fund as of the end of such
695 Fiscal Year, which audited financial statement shall include a statement as to the manner and
696 extent to which the City has complied with the provisions hereof and of any Supplemental
697 Agreement as it relates to such accounts and funds.

698 Section 6.14. Payment of Taxes and Other Charges and Compliance with Governmental
699 Regulations. The City will pay and discharge all taxes, service charges, assessments and other
700 governmental charges which may hereafter be lawfully imposed upon the System or any
701 properties owned by the City, or upon the System Revenues, when the same shall become due;
702 *provided*, that nothing herein contained shall require the City to make any such payments so long
703 as the City in good faith shall contest the validity of any such taxes, service charges, assessments
704 or other governmental charges and such nonpayment will not materially adversely affect the
705 City's ability to perform its obligations hereunder.

706 The City will duly comply with all applicable state, federal and local statutes and all valid
707 regulations and requirements of any governmental authority relative to the operation of the
708 System or any part thereof, but the City shall not be required to comply with any regulations or
709 requirements so long as the validity or application thereof shall be contested in good faith and
710 such noncompliance will not materially adversely affect the City's ability to perform its
711 obligations hereunder.

712 Section 6.15. Tax Covenants and Matters.

713 (a) General. The City hereby covenants with the holders of the Certificates that,
714 notwithstanding any other provisions of this Agreement, they shall not take any action, or fail to
715 take any action, if any such action or failure to take action would adversely affect the exclusion
716 from gross income of interest on the Certificates under Section 103 of the Code. The City shall
717 not, directly or indirectly, use or permit the use of proceeds of the Certificates or any of the
718 property financed or refinanced with proceeds of the Certificates, or any portion thereof, by any
719 person other than a governmental unit (as such term is used in Section 141 of the Code) in such
720 manner or to such extent as would result in the loss of exclusion from gross income for federal
721 income tax purposes of interest on the Certificates.

722 (b) Arbitrage. The City shall not, directly or indirectly, use or permit the use of any
723 proceeds of any Certificates, or of any property financed or refinanced thereby, or other funds of
724 the City, or take or omit to take any action, that would cause the Certificates to be "arbitrage
725 bonds" within the meaning of Section 148 of the Code. To that end, the City shall comply with
726 all requirements of Section 148 of the Code and all regulations of the United States Department
727 of the Treasury issued thereunder to the extent such requirements are, at the time, in effect and
728 applicable to the Certificates.

729 (c) Federal Guarantee. The City shall not make any use of the proceeds of the
730 Certificates or any other funds of the City, or take or omit to take any other action, that would
731 cause the Certificates to be "federally guaranteed" within the meaning of Section 149(b) of the
732 Code.

733 (d) Compliance with Tax Certificate. In furtherance of the foregoing tax covenants
734 of this Section, the City covenants that they will comply with the provisions of the Tax
735 Certificate, which is incorporated herein as if fully set forth herein. These covenants shall
736 survive payment in full of the Certificates.

737 Section 6.16. Further Assurances. The City will adopt, make, execute and deliver any
738 and all such further indentures, instruments and assurances as may be reasonably necessary or
739 proper to carry out the intention or to facilitate the performance hereof.

740 ARTICLE VII

741 PREPAYMENT OF INSTALLMENT PAYMENTS

743 Section 7.1. Prepayment. The City may prepay the Installment Payments in
744 accordance with the provisions of the Trust Agreement applicable to the redemption prior to
745 maturity of the Certificates.

746 Before making any prepayment pursuant to this Section, the City shall give the
747 Corporation and the Trustee forty-five (45) days prior notice of such prepayment.

ARTICLE VIII

EVENTS OF DEFAULT AND REMEDIES OF THE AUTHORITY

Section 8.1. Events of Default and Acceleration of Maturities. If one or more of the following Events of Default shall happen, that is to say --

(1) if default shall be made by the City in the due and punctual payment of any Installment Payment or any Parity Debt when and as the same shall become due and payable;

(2) if default shall be made by the City in the performance of any of the other agreements or covenants required herein to be performed by it, and such default shall have continued for a period of thirty (30) days after the City shall have been given notice in writing of such default by the Corporation or the Trustee; provided that such default shall not constitute an Event of Default hereunder, if the City shall commence to cure such default within such thirty (30) day period and thereafter diligently and in good faith shall proceed to cure such default within a reasonable period of time;

(3) if the City shall file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction shall approve a petition filed with or without the consent of the City seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the City or of the whole or any substantial part of its property; or

(4) if payment of the principal of any Parity Debt is accelerated in accordance with its terms;

then, and in each and every such case during the continuance of such Event of Default specified in clauses (3) and (4) above, the Corporation shall, and for any other such Event of Default the Corporation may by notice in writing to the City, declare the entire principal amount of the unpaid Installment Payments and the accrued interest thereon to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable. This subsection however, is subject to the condition that if at any time after the entire principal amount of the unpaid Installment Payments and the accrued interest thereon shall have been so declared due and payable and before any judgment or decree for the payment of the moneys due shall have been obtained or entered the City shall deposit with the Corporation a sum sufficient to pay the unpaid principal amount of the Installment Payments or the unpaid payment of any other Parity Debt referred to in clause (1) above due prior to such declaration and the accrued interest thereon, with interest on such overdue installments, at the rate or rates applicable to the remaining unpaid principal balance of the Installment Payments or such other Parity Debt if paid in accordance with their terms, and the reasonable expenses of the

789 Corporation and any and all other defaults known to the Corporation (other than in the payment
790 of the entire principal amount of the unpaid Installment Payments and the accrued interest
791 thereon due and payable solely by reason of such declaration) shall have been made good or
792 cured to the satisfaction of the Corporation or provision deemed by the Corporation to be
793 adequate shall have been made therefor, then and in every such case the Corporation by written
794 notice to the City, may rescind and annul such declaration and its consequences; but no such
795 rescission and annulment shall extend to or shall affect any subsequent default or shall impair or
796 exhaust any right or power consequent thereon.

797 Section 8.2. Application of Funds Upon Acceleration. Upon the date of the declaration
798 of acceleration as provided in Section 8.1, all System Revenues thereafter received shall be
799 applied in the following order (subject on a pro rata basis to the acceleration provisions of Parity
800 Debt) -

801 First, to the payment, without preference or priority, and in the event of any insufficiency
802 of such System Revenues ratably without any discrimination or preference, of the fees, costs and
803 expenses of the Corporation and Trustee, if any, in carrying out the provisions of this article,
804 including reasonable compensation to its accountants and counsel and similar costs with respect
805 to Parity Debt;

806 Second, to the payment of Operation and Maintenance Costs; and

807 Third, to the payment of the entire principal amount of the unpaid Installment Payments
808 and the unpaid principal amount of all other Parity Debt and the accrued interest thereon, with
809 interest on the overdue installments at the rate or rates of interest applicable to the Installment
810 Payments and such other Parity Debt if paid in accordance with their respective terms.

811 Section 8.3. Other Remedies of the Corporation. The Corporation shall have the right

812 (a) by mandamus or other action or proceeding or suit at law or in equity to enforce
813 its rights against the City or any director, officer or employee thereof, and to compel the City or
814 any such director, officer or employee to perform and carry out its or his duties under the Law
815 and the agreements and covenants required to be performed by it or him contained herein;

816 (b) by suit in equity to enjoin any acts or things which are unlawful or violate the
817 rights of the Corporation; or

818 (c) by suit in equity upon the happening of an Event of Default to require the City
819 and its directors, officers and employees to account as the trustee of an express trust.

820 Notwithstanding anything contained herein, the Corporation shall have no security
821 interest in or mortgage on the Project, the System or other facilities of the City or any other real
822 property of the City and no default hereunder shall result in the loss of the Project, the System or
823 other facilities of the City or any other real property of the City.

824 Section 8.4. Non-Waiver. Nothing in this article or in any other provision hereof shall
825 affect or impair the obligation of the City, which is absolute and unconditional, to pay the
826 Installment Payments to the Corporation at the due dates or upon prepayment from the System

827 Net Revenues, the System Revenue Fund and the other funds herein pledged for such payment,
828 or shall affect or impair the right of the Corporation, which is also absolute and unconditional, to
829 institute suit to enforce such payment by virtue of the contract embodied herein.

830 A waiver of any default or breach of duty or contract by the Corporation shall not affect
831 any subsequent default or breach of duty or contract or impair any rights or remedies on any such
832 subsequent default or breach of duty or contract. No delay or omission by the Corporation to
833 exercise any right or remedy accruing upon any default or breach of duty or contract shall impair
834 any such right or remedy or shall be construed to be a waiver of any such default or breach of
835 duty or contract or an acquiescence therein, and every right or remedy conferred upon the
836 Corporation by the Law or by this article may be enforced and exercised from time to time and
837 as often as shall be deemed expedient by the Corporation.

838 If any action, proceeding or suit to enforce any right or exercise any remedy is abandoned
839 or determined adversely to the Corporation, the City and the Corporation shall be restored to
840 their former positions, rights and remedies as if such action, proceeding or suit had not been
841 brought or taken.

842 Section 8.5. Remedies Not Exclusive. No remedy herein conferred upon or reserved to
843 the Corporation is intended to be exclusive of any other remedy, and each such remedy shall be
844 cumulative and shall be in addition to every other remedy given hereunder or now or hereafter
845 existing in law or in equity or by statute or otherwise and may be exercised without exhausting
846 and without regard to any other remedy conferred by the Law or any other law.

847 ARTICLE IX

848 DISCHARGE OF OBLIGATIONS

850 Section 9.1. Discharge of Obligations. The obligations hereunder may be discharged
851 as provided in Article VIII of the Trust Agreement.

852 ARTICLE X

853 MISCELLANEOUS

854 Section 10.1. Liability of City Limited to System Revenues. Notwithstanding anything
855 contained herein, the City shall not be required to advance any moneys derived from any source
856 of income other than the System Revenues, the System Revenue Fund and the other funds
857 provided herein for the payment of the Installment Payments or for the performance of any
858 agreements or covenants required to be performed by it contained herein. The City may,
859 however, advance moneys for any such purpose so long as such moneys are derived from a
860 source legally available for such purpose and may be legally used by the City for such purpose.
861

862 The obligation of the City to make the Installment Payments and Special Payments is a
863 special obligation of the City payable solely from the System Net Revenues, and does not
864 constitute a debt of the City or of the State of California or of any political subdivision thereof in
865 contravention of any constitutional or statutory debt limitation or restriction.

866 Section 10.2. Successor Is Deemed Included in all References to Predecessor.
867 Whenever either the City or the Corporation is named or referred to herein, such reference shall
868 be deemed to include the successor to the powers, duties and functions that are presently vested
869 in the City or the Corporation, and all agreements and covenants required hereby to be performed
870 by or on behalf of the City or the Corporation shall bind and inure to the benefit of the respective
871 successors thereof whether so expressed or not.

872 Section 10.3. Waiver of Personal Liability. No director, officer or employee of the City
873 shall be individually or personally liable for the payment of the Installment Payments, but
874 nothing contained herein shall relieve any director, officer or employee of the City from the
875 performance of any official duty provided by any applicable provisions of law or hereby.

876 Section 10.4. Article and Section Headings, Gender and References. The headings or
877 titles of the several articles and sections hereof and the table of contents appended hereto shall be
878 solely for convenience of reference and shall not affect the meaning, construction or effect
879 hereof, and words of any gender shall be deemed and construed to include all genders. All
880 references herein to "Articles," "Sections" and other subdivisions or clauses are to the
881 corresponding articles, sections, subdivisions or clauses hereof; and the words "hereby",
882 "herein," "hereof," "hereto," "herewith" and other words of similar import refer to this
883 Agreement as a whole and not to any particular article, section, subdivision or clause hereof.

884 Section 10.5. Partial Invalidity. If any one or more of the agreements or covenants or
885 portions thereof required hereby to be performed by or on the part of the City or the Corporation
886 shall be contrary to law, then such agreement or agreements, such covenant or covenants or such
887 portions thereof shall be null and void and shall be deemed separable from the remaining
888 agreements and covenants or portions thereof and shall in no way affect the validity hereof. The
889 City and the Corporation hereby declare that they would have executed this Agreement, and each
890 and every other article, section, paragraph, subdivision, sentence, clause and phrase hereof
891 irrespective of the fact that any one or more articles, sections, paragraphs, subdivisions,
892 sentences, clauses or phrases hereof or the application thereof to any person or circumstance may
893 be held to be unconstitutional, unenforceable or invalid.

894 Section 10.6. Assignment. This Agreement and any rights hereunder may be assigned
895 by the Corporation, as a whole or in part, without the necessity of obtaining the prior consent of
896 the City. The City acknowledges and agrees that the Installment Payments will be assigned to
897 the Trustee and pledged under the Trust Agreement to the payment of the Certificates.

898 Section 10.7. Net Contract. This Agreement shall be deemed and construed to be a net
899 contract, and the City shall pay absolutely net during the term hereof the Installment Payments
900 and all other payments required hereunder, free of any deductions and without abatement,
901 diminution or set-off whatsoever.

902 Section 10.8. California Law. THE INSTALLMENT PURCHASE AGREEMENT
903 SHALL BE CONSTRUED AND GOVERNED IN ACCORDANCE WITH THE LAWS OF
904 THE STATE OF CALIFORNIA.

905 Section 10.9. Effective Date. This Agreement shall become effective upon its execution
906 and delivery, and shall terminate when the Purchase Price shall have been fully paid (or
907 provision for the payment thereof shall have been made to the satisfaction of the Corporation).

908 Section 10.10. Execution in Counterparts. This Agreement may be executed in several
909 counterparts, each of which shall be deemed an original, and all of which shall constitute but one
910 and the same instrument.

911 Section 10.11. Indemnification of Corporation. To the fullest extent permitted by law,
912 the City agrees to indemnify, hold harmless and defend the Corporation and the Trustee, and
913 each of their respective officers, governing board members, directors, officials, employees,
914 attorneys and agents (collectively, the "Indemnified Parties"), against any and all losses,
915 damages, claims, actions, liabilities, costs and expenses of any conceivable nature, kind or
916 character (including, without limitation, reasonable attorneys' fees, litigation and court costs,
917 amounts paid in settlement and amounts paid to discharge judgments) to which the Indemnified
918 Parties, or any of them, may become subject under federal or state securities laws or any other
919 statutory law or at common law or otherwise arising out of or based upon or in any way relating
920 to:

921 (i) the Trust Agreement, this Agreement or the execution or amendment
922 thereof or in connection with transactions contemplated thereby, including the sale, resale
923 or remarketing of the Certificates;

924 (ii) any act or omission of the City or any of its agents, contractors, servants,
925 employees or licensees in connection with this Agreement or the Project, the operation of
926 the Project, or the condition, environmental or otherwise, occupancy, use, possession,
927 conduct or management of work done in or about, or from the planning, design,
928 acquisition, construction or development of, the Project or any part thereof;

929 (iii) any lien or charge upon payments by the City to the Corporation and the
930 Trustee hereunder, or any taxes (including, without limitation, all ad valorem taxes and
931 sales taxes), assessments, impositions and other charges imposed on the Corporation or
932 the Trustee in respect of any portion of the Project;

933 (iv) any violation of any environmental law, rule or regulation with respect to,
934 or the release of any toxic substance from, the Project or any part thereof;

935 (v) the redemption, in whole or in part, of the Certificates;

936 (vi) any untrue statement or misleading statement or alleged untrue statement
937 or alleged misleading statement of a material fact furnished in writing by the City
938 contained in any offering statement or document for the Certificates or any of the
939 documents relating to the Certificates to which the City is a party, or any omission or
940 alleged omission from any offering statement or document for the Certificates of any
941 material fact necessary to be stated therein in order to make the statements made therein
942 by the City, in the light of the circumstances under which they were made, not
943 misleading;

944 (vii) the Trustee's acceptance or administration of the trust of the Trust
945 Agreement, or the exercise or performance of any of its powers or duties thereunder or
946 under any of the documents relating to the Certificates to which it is a party; except (a) in
947 the case of the foregoing indemnification of the Trustee or any of their respective
948 officers, members, directors, officials, employees, attorneys and agents, to the extent such
949 damages are caused by the negligence or willful misconduct of such Indemnified Party;
950 or (b) in the case of the foregoing indemnification of the Corporation or any of its
951 officers, members, directors, officials, employees, attorneys and agents, to the extent such
952 damages are caused by the willful misconduct of such Indemnified Party. In the event
953 that any action or proceeding is brought against any Indemnified Party with respect to
954 which indemnity may be sought hereunder, the City, upon written notice from the
955 Indemnified Party, shall assume the investigation and defense thereof, including the
956 employment of counsel selected by the Indemnified Party, and shall assume the payment
957 of all expenses related thereto, with full power to litigate, compromise or settle the same
958 in its sole discretion; provided that the Indemnified Party shall have the right to review
959 and approve or disapprove any such compromise or settlement. Each Indemnified Party
960 shall have the right to employ separate counsel in any such action or proceeding and
961 participate in the investigation and defense thereof, and the City shall pay the reasonable
962 fees and expenses of such separate counsel; provided, however, that such Indemnified
963 Party may only employ separate counsel at the expense of the City if in its judgment a
964 conflict of interest exists by reason of common representation or if all parties commonly
965 represented do not agree as to the action (or inaction) of counsel.

966 The rights of any persons to indemnify hereunder and rights to payment of fees and
967 reimbursement of expenses pursuant to Section 4.2, hereof shall survive the final payment of the
968 Certificates and in the case of the Trustee any resignation or removal. The provisions of this
969 Section shall survive the termination of this Agreement.

970 Section 10.12. Amendments. This Agreement may only be amended in accordance with
971 the terms of the Trust Agreement.

972 IN WITNESS WHEREOF, the parties hereto have executed and attested this Agreement
973 by their officers thereunto duly authorized as of the day and year first written above.

974 CITY OF CALISTOGA

975 By: _____
976 Authorized Officer

977 CALISTOGA PUBLIC FACILITIES
978 CORPORATION

979 By: _____
980 Authorized Officer

981
982

EXHIBIT A

INFORMATION CONCERNING THE PROJECT

Type of System: Water

Description of the Project:.

The project consists of four main components:

- 1) replacement of an existing main with an approximately 10,100 foot long, twelve-inch diameter main leading from Kimball Treatment Plant to a connecting main at the intersection of Tubbs Lane and Myrtle Dale Road/Grant Street;
- 2) replacement of an obsolescent main with an approximately 5,200 foot long, twelve-inch diameter main along Myrtle Dale Road/Grant Street;
- 3) Kimball Water Treatment Plant improvements to the clarifier, access to the clarifier, and adding flow meters and turbidimeters to the filter banks; and
- 4) Kimball Reservoir improvements, including construction of a flow measurement system on each of two creeks discharging into the reservoir, a flow meter on the diversion from the outlet tower to the treatment plant, a flow meter on the bypass line to Kimball Creek, replacement of the wooden flashboards with an inflatable dam to provide for a safer means of containing additional water behind the dam after the winter flows have ceased and of regulation excess flows over the reservoir spillway, and other miscellaneous improvements to the System

EXHIBIT B

SCHEDULE OF INSTALLMENT PAYMENTS

1. The principal amount of payments to be made by the City hereunder is \$2,511,170.
2. The installment payments of principal are payable in the amounts and on the Installment Payment Dates as shown in Attachment A. Interest on such outstanding principal amounts shall accrue at the rate of [4.375%] per annum and shall be payable on March 1 and September 1, commencing September 1, 2008, with one-half of the annual interest payable on each Interest Payment Date.

[Attach Debt Service Schedule from Brandis Tallman LLC]