SWEETWATER SPRINGS WATER DISTRICT

TO: Board of Directors **AGENDA NO. V-C**

FROM: Steve Mack, General Manager

Meeting Date : April 5, 2018

SUBJECT: APPROVAL OF : RESOLUTION 18-05, Authorizing the Execution of an Installment Purchase Agreement to Finance Improvements to the District's Water System

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RECOMMENDED ACTION: Approve Resolution 18-05 authorizing the District to execute an Installment Purchase Agreement which allows the District to borrow up to $1.8 million to complete the 2018 Capital Improvement Project.

FISCAL IMPACT: A total commitment of up to $1.8 million at 2.25% interest rate with annual debt payments of approximately $60,000.

DISCUSSION:
The District has agreed to move forward with a U.S. Department of Agriculture Rural Development (USDA) loan obligation to fund completion of the 2018 Capital Improvement Project (CIP). The 2018 CIP is replacement of approximately 4,600 ft of existing main and 58 services on Old River Rd at Morningside east to the eastern section of Foothill Drive near where Old River Road intersects with River Road, and includes Orchard Rd and Foothill Drive. The USDA loan obligation will have a total value of up to $1.8 million (but we expect something closer to $1.5 million) and will have a 40 year amortization. The bond will cost the District approximately $60,000 per year.

Resolution 18-05 authorizes execution of the Installment Purchase Agreement with Municipal Finance Corporation which is the mechanism for borrowing the funds through USDA. With approval of Resolution 18-05, the District can move forward acquiring the funding to construct the 2018 CIP. Resolution 18-05 included in the packet is still in draft form but is substantially completed. The bond counsel in consultation with USDA still needs to include final numbers and appropriate dates, and there may be some other small changes to this document. A final version will be distributed prior to the Board meeting and at the Board meeting.

This bond/loan will have the following characteristics:

- 2.25% true interest rate; 40 year term.
- Approximately $50,000 in financing costs.
- The total amount of the loan/bond will be no more than $1.8 million; we think the final amount will be closer to $1.5 million because of the favorable construction contract award amount.

- Annual debt payment will be approximately $60,000 if the final bond amount is $1.8 million.
- The total costs over the forty period of this bond are estimated to be approximately $2.8 million assuming a total bond amount of $1.8 million.

The District will have to acquire interim financing to complete the financing package for construction of the 2018 CIP. The USDA has changed their policy of waiving this requirement and will transfer the funds under this bond after construction is substantially completed. That is discussed in Agenda Item V.D.

RESOLUTION NO.18-05

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE SWEETWATER SPRINGS WATER DISTRICT AUTHORIZING THE EXECUTION OF AN INSTALLMENT PURCHASE AGREEMENT TO FINANCE IMPROVEMENTS TO THE MUNICIPAL WATER SYSTEM

WHEREAS, the Sweetwater Springs Water District (the "District"), a county water district duly organized and existing under the Constitution and laws of the State of California, intends to finance certain improvements to its municipal water system;

WHEREAS, the United States of America, acting through the Rural Utilities Service of the United States Department of Agriculture ("USDA Rural Utilities Service"), has agreed to finance the costs of the acquisition of the improvements through a loan in the amount of $1,800,000, to be repaid with interest at a rate determined as specified in the letter of conditions dated August 5, 2016, as amended by Amendment No. 1 dated May 11, 2017;

WHEREAS, the financing will be accomplished by (i) the District and Municipal Asset Finance Corp. (the "Corporation") entering into an Installment Purchase Agreement, whereby the Corporation will sell the improvements to the District in exchange for installment payments; and (ii) the Corporation's assignment of its interests in the Installment Purchase Agreement to USDA Rural Utilities Service pursuant to an Assignment Agreement, in exchange for payment of the amount required to be paid by the Corporation to the District under the Installment Purchase Agreement, which will be used to pay the costs of constructing the improvements;

WHEREAS, the Installment Purchase Agreement, which is incorporated herein by reference, has been presented to the Board of Directors for its review and approval;

WHEREAS, the District has previously executed and delivered (i) that certain Installment Purchase Agreement dated as of July 3, 2008, as amended by the First Amendment to Installment Sale Agreement dated as November 17, 2016, by and between the District and Citizens Business Bank, dated as of (the "Prior Installment Purchase Agreement"), (ii) that certain Bond Issuance Agreement dated as of August 1, 2013 whereby the District issued a bond which was purchased by Capital One Public Funding LLC (the "Prior Bond Issuance Agreement") and (ii) that certain Loan Agreement with the California State Revolving Fund dated as of June 24, 1993 (the "State Revolving Loan Agreement"), by and between the District and the State of California;

WHEREAS, the District may enter into contracts under which payments are secured by a pledge of Water Net Revenues on a parity with the pledge of Water Net Revenues that secures payments under the Prior Installment Purchase Agreement, Prior Bond Issuance Agreement, and the State Revolving Loan Agreement;

WHEREAS, the District has met the conditions set forth in Section 4.7 of the Prior Installment Purchase Agreement, Section 5.7 of the Prior Bond Issuance Agreement, and Article B-1 of the State Revolving Loan Agreement;

WHEREAS, it appears to the Board of Directors of the District (the "Board") that the authorization, approval, execution, and delivery of the Installment Purchase Agreement and any documents contemplated thereby or incidental thereto are desirable and in the best interests of the District;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Sweetwater Springs Water District as follows:

1. Recitals

. All of the above recitals are true and correct and the Board so finds and determines.

2. Authorization of Officers to Execute and Deliver Documents

. The Board hereby approves the Installment Purchase Agreement in substantially the form presented to this meeting and authorizes and directs the General Manager and his or her designees (the "Designated Officers"), and each of them individually, for and in the name of and on behalf of the District, to execute and deliver the Installment Purchase Agreement in such form with such changes, insertions, revisions, corrections, or amendments as shall be approved by the officer executing it. The execution of the foregoing by a Designated Officer shall constitute conclusive evidence of such officer's and the Board's approval of any such changes, insertions, revisions, corrections, or amendments to the form of the agreement presented to this meeting.

3. Designation as "Qualified Tax-Exempt Obligation

." The Board reasonably anticipates that the District and all subordinate entities and all entities that issue obligations on its behalf will not issue more than ten million dollars of tax-exempt obligations (excluding private activity bonds) during calendar year 2018. The Board hereby designates its obligations under the Installment Purchase Agreement as a qualified tax-exempt obligation within the meaning of Section 265(b)(3)(B) of the Internal Revenue Code of 1986, as amended.

4. Disclosure of Specified Financing Information. Pursuant to the requirements of Government Code section 5852.1, the Board is required to disclose at a public meeting certain information related to the financing. The Board has obtained from USDA Rural Utilities Service this information as a good faith estimate and hereby discloses said information as found in Exhibit A attached hereto and incorporated herein by reference.

5. General Authorization

. All actions heretofore taken by the officers and agents of the District with respect to the execution and delivery of the Installment Purchase Agreement are hereby approved, and the Designated Officers and any and all other officers of the District are hereby authorized and directed, for and in the name and on behalf of the District, to do any and all things and take any and all actions related to the execution and delivery of any and all certificates, requisitions, agreements and other documents that they, or any of them, may deem necessary or advisable in order to consummate the financing implemented by the delivery of the Installment Purchase Agreement and to effect the purposes of this resolution.

6. Effective Date

. This resolution shall take effect immediately upon its adoption.

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I hereby certify that the foregoing is a full, true, and correct copy of a Resolution duly and regularly adopted and passed by the Board of Directors of the SWEETWATER SPRINGS WATER DISTRICT, Sonoma County, California, at a meeting held on April 5, 2018 by the following vote:

Director	Aye	No
Gaylord Schaap	_____	_____
Tim Lipinski	_____	_____
Richard Holmer	_____	_____
Pip Marquez de la Plata	_____	_____
Sukey Robb-Wilder	_____	_____

_____
Pip Marquez de la Plata
President of the Board of Directors

By:_____
Attest: Julie A. Kenny
Clerk of the Board of Directors

Exhibit A

Specified Financial Information*

(A) The true interest cost of the bonds, which means the rate necessary to discount the amounts payable on the respective principal and interest payment dates to the purchase price received for the new issue of bonds.

2.25%

(B) The finance charge of the bonds, which means the sum of all fees and charges paid to third parties.

$50,000

(C) The amount of proceeds received by the public body for sale of the bonds less the finance charge of the bonds described in subparagraph (B) and any reserves or capitalized interest paid or funded with proceeds of the bonds.

$1,750,000

(D) The total payment amount, which means the sum total of all payments the borrower will make to pay debt service on the bonds plus the finance charge of the bonds described in subparagraph (B) not paid with the proceeds of the bonds. The total payment amount shall be calculated to the final maturity of the bonds.

$2,765,000.00

(* good faith estimate)

INSTALLMENT PURCHASE AGREEMENT

between the

SWEETWATER SPRINGS WATER DISTRICT

and the

MUNICIPAL ASSET FINANCE CORP.

Dated _____ 1, 2018

relating to
Revenue Certificate of Participation
([2018 CIP])

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INSTALLMENT PURCHASE AGREEMENT

This INSTALLMENT PURCHASE AGREEMENT, made and entered into as of _____ 1, 2018 (this "Installment Purchase Agreement"), between the SWEETWATER SPRINGS WATER DISTRICT (the "District"), a county water district duly organized and existing under and by virtue of the Constitution and laws of the State of California, and MUNICIPAL ASSET FINANCE CORP., a California corporation (the "Corporation"),

W I T N E S S E T H:

WHEREAS, the District proposes to purchase certain improvements to the Water System from the Corporation upon the terms and conditions set forth herein;

WHEREAS, the United States of America, acting through the Rural Utilities Service of the United States Department of Agriculture ("USDA Rural Utilities Service"), has agreed to finance the costs of the acquisition of the improvements;

WHEREAS, the District has previously executed and delivered (i) that certain Installment Purchase Agreement dated as of July 3, 2008, as amended by the First Amendment to Installment Sale Agreement dated as November 17, 2016, by and between the District and Citizens Business Bank, dated as of (the "Prior Installment Purchase Agreement"), (ii) that certain Bond Issuance Agreement dated as of August 1, 2013 whereby the District issued a bond which was purchased by Capital One Public Funding LLC (the "Prior Bond Issuance Agreement") and (ii) that certain Loan Agreement with the California State Revolving Fund dated as of June 24, 1993(the "State Revolving Loan Agreement"), by and between the District and the State of California;

WHEREAS, the District may enter into contracts under which payments are secured by a pledge of Water Net Revenues on a parity with the pledge of Water Net Revenues that secures payments under the Prior Installment Purchase Agreement, Prior Bond Issuance Agreement, and the State Revolving Loan Agreement;

WHEREAS, the District has met the conditions set forth in Section 4.7 of the Prior Installment Purchase Agreement, Section 5.7 of the Prior Bond Issuance Agreement, and Article B-1 of the State Revolving Loan Agreement;

WHEREAS, the District and the Corporation have duly authorized the execution of this Installment Purchase Agreement;

WHEREAS, all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in connection with the execution and delivery of this Installment Purchase Agreement do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the parties hereto are now duly authorized to execute and enter into this Installment Purchase Agreement;

NOW, THEREFORE, in consideration of these premises and of the mutual agreements and covenants contained herein and for other valuable consideration, the parties hereto do hereby agree as follows:

ARTICLE I
DEFINITIONS AND OTHER PROVISIONS OF GENERAL APPLICABILITY

Section 1.1 **Definitions**. Unless the context otherwise requires, the terms defined in this section shall for all purposes hereof and of any amendment hereof or supplement hereto and of any report or other document mentioned herein or therein have the meanings defined herein, the following definitions to be equally applicable to both the singular and plural forms of any of the terms defined herein.

Assignee means the United States of America, acting through the Rural Utilities Service of the United States Department of Agriculture, as assignee of the Corporation's interests hereunder, and its successors and assigns.

Certificate means the Revenue Certificate of Participation ([NAME OF PROJECT]) evidencing the rights to receive the Installment Payments to be made by the District hereunder, which payments are secured by a pledge of Water Net Revenues on a parity with the pledge of (i) payments under the State Revolving Loan Agreement, (ii) payments under the Prior Installment Sale Agreement, and (iii) the payments under the Prior Bond Issuance Agreement.

Corporation means Municipal Asset Finance Corp., a nonprofit public benefit corporation duly organized and existing under and by virtue of the laws of the State of _____.

District means the Sweetwater Springs Water District, a county water district duly organized and existing under and by virtue of the Constitution and laws of the State of California.

Event of Default means an event described in Section 8.1 (Events of Default and Remedies).

Fiscal Year means the period beginning on July 1 of each year and ending on the June 30 of the next succeeding year, or any other twelve-month period selected and designated as the official Fiscal Year of the District.

Installment Payment Dates mean _____ 1 and _____ 1 of each year, commencing _____ 1, 201___.

Installment Payments means the installment payments of interest and principal scheduled to be paid by the District under and pursuant to this Installment Purchase Agreement.

Installment Purchase Agreement means this Installment Purchase Agreement, by and between the District and the Corporation, dated _____ 1, 2018, as originally executed and as it may from time to time be amended or supplemented in accordance herewith.

Letter of Conditions means the letter of conditions dated August 5, 2016, as amended by Amendment No. 1 dated May 11, 2017, specifying the terms under which the USDA Rural Utilities Service will fund the acquisition of the Assets and the construction and acquisition of the Project.

Loan Resolution means the resolution adopted by the Board of Directors of the District on October 5, 2017, in the form of the loan resolution specified by RUS Bulletin 1780-27, as required by Paragraph II(2)(a) of the Letter of Conditions.

Manager means the General Manager of the District, or any other person designated by the General Manager to act on behalf of the General Manager.

Net Proceeds means, when used with respect to any casualty insurance or condemnation award, the proceeds from such insurance or condemnation award remaining after payment of all expenses (including attorneys' fees) incurred in the collection of such proceeds.

Operation and Maintenance Expenses means, for any period of calculation, all expenses and costs of management, operation, maintenance and repair of the Water System, and all incidental costs, fees and expenses and capital expenditures properly chargeable to the Water System, but excluding debt service or other similar payments and depreciation and obsolescence charges or reserves therefore and amortization of intangibles.

Owner means any person who shall be the registered owner of the Certificate.

Parity Debt means the payments made pursuant to any other indebtedness or other obligations (including leases and installment purchase agreements) hereafter issued or incurred and secured by a pledge of and lien on Water Net Revenues equally and ratably with the Installment Payments. Parity Debt includes (i) the payments under the State Revolving Loan Agreement, (ii) the installment payments under the Prior Installment Sale Agreement, and (iii) the payments under the Prior Bond Issuance Agreement.

Prior Bond Issuance Agreement means the Bond Issuance Agreement (2013 General Obligation Refunding Bond) dated as of August 1, 2013 whereby the District sold a bond purchased by Capital One Public Funding, LLC.

Prior Installment Sale Agreement means the Installment Sale Agreement dated as of July 3, 2008, as amended by the First Amendment to Installment Sale Agreement dated as of November 17, 2016, all by and between the District and Citizens Business Bank.

Project means the improvements to be acquired from the Corporation.

Purchase Price means the principal amount plus interest thereon owed by the District to the Corporation under the terms hereof as provided in Section 4.1 (Purchase Price).

Reserve Requirement means an amount equal to the average annual amount payable as Installment Payments.

USDA Rural Utilities Service means the United States of America, acting through the Rural Utilities Service of the United States Department of Agriculture.

State Revolving Loan Agreement means the Loan Agreement dated as of June 24, 1993, by and between the District and the State of California

Water Gross Revenues means all income and revenue received by the District from the ownership and operation of the Water System, including, without limiting the generality of the foregoing,

all income, rents, rates, fees, charges or other moneys derived from the services, facilities and commodities sold, furnished or supplied through the facilities of the Water System;

the earnings on and income derived from the investment of such income, rents, rates, fees, charges or other moneys to the extent that the use of such earnings and income is limited by or pursuant to the law to the Water System; and

the proceeds derived by the District directly or indirectly from the sale, lease or other disposition of a part of the Water System;

provided, that the term "Water Gross Revenues" shall not include customers' deposits or any other deposits subject to refund until such deposits have become the property of the District.

Water Net Revenues means, for any period of calculation, Water Gross Revenues less Operation and Maintenance Expenses of the Water System.

Water Service means the water distribution service made available or provided by the Water System.

Water System means the municipal water system of the District serving the District and its inhabitants, including all improvements, extensions, and additions thereto, and including all property, real, personal and mixed, of every nature now or hereafter owned by the District and used in the operations of its municipal water system.

Section 1.2 **Benefits of Installment Purchase Agreement Limited to Parties**. Nothing contained herein, expressed or implied, is intended to give to any person other than the District or the Corporation any right, remedy or claim under or pursuant hereto, and any agreement or covenant required herein to be performed by or on behalf of the District or the Corporation shall be for the sole and exclusive benefit of the other parties.

Section 1.3 **Successor Is Deemed Included in all References to Predecessor**. Whenever either the District or the Corporation is named or referred to herein, such reference shall be deemed to include the successor to the powers, duties and functions that are presently vested in the District or the Corporation, and all agreements and covenants required hereby to be performed by or on behalf of the District or the Corporation shall bind and inure to the benefit of the respective successors thereof whether so expressed or not.

Section 1.4 **Waiver of Personal Liability**. No director, officer or employee of the District shall be individually or personally liable for the payment of the Installment Payments, but nothing contained herein shall relieve any director, officer or employee of the District from the performance of any official duty provided by any applicable provisions of law or hereby.

Section 1.5 **Article and Section Headings, Gender and References**. The headings or titles of the several articles and sections hereof and the table of contents appended hereto shall be solely for convenience of reference and shall not affect the meaning, construction or effect hereof, and words of any gender shall be deemed and construed to include all genders. All references herein to "Articles," "Sections" and other subdivisions or clauses are to the corresponding articles, sections, subdivisions or clauses hereof; and the words "hereby," "herein," "hereof," "hereto," "herewith" and

other words of similar import refer to this Installment Purchase Agreement as a whole and not to any particular article, section, subdivision or clause hereof.

Section 1.6 **Partial Invalidity**. If any one or more of the agreements or covenants or portions thereof required hereby to be performed by or on the part of the District or the Corporation shall be contrary to law, then such agreement or agreements, such covenant or covenants or such portions thereof shall be null and void and shall be deemed separable from the remaining agreements and covenants or portions thereof and shall in no way affect the validity hereof. The District and the Corporation hereby declare that they would have executed this Installment Purchase Agreement, and each and every other article, section, paragraph, subdivision, sentence, clause and phrase hereof irrespective of the fact that any one or more articles, sections, paragraphs, subdivisions, sentences, clauses or phrases hereof or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

Section 1.7 **California Law**. This Installment Purchase Agreement shall be construed and governed in accordance with the laws of the State of California.

Section 1.8 **Notices**. All written notices to be given hereunder shall be given by mail to the party entitled thereto at its address set forth below, or at such other address as such party may provide to the other party in writing from time to time, namely:

If to the District: Sweetwater Springs Water District
10781 Highway 116,
PO Box 48
Guerneville, CA 95446
Attention: General Manager

If to the Corporation: Municipal Asset Finance Corp.

Attention: _____

Section 1.9 **Execution in Counterparts**. This Installment Purchase Agreement may be executed in several counterparts, each of which shall be deemed an original, and all of which shall constitute but one and the same instrument.

ARTICLE II
REPRESENTATIONS BY THE DISTRICT AND THE CORPORATION

Section 2.1 **Representations by the District**. The District makes the following representations:

(a) The District is a county water district duly organized and existing under and by virtue of the Constitution and laws of the State of California.

(b) The District has full legal right, power and authority to enter into this Installment Purchase Agreement and to carry out its obligations hereunder.

(c) By proper action, the District has duly authorized the execution, delivery and due performance of this Installment Purchase Agreement.

Section 2.2 **Representations by the Corporation**. The Corporation makes the following representations and warranties:

(a) The Corporation is a nonprofit public benefit corporation duly organized and existing under the laws of the State of California.

(b) The Corporation has full legal right, power and authority to enter into this Installment Purchase Agreement and to carry out its obligations hereunder.

(c) By proper action, the Corporation has duly authorized the execution, delivery and due performance of this Installment Purchase Agreement.

ARTICLE III
INSTALLMENT PURCHASE OF THE PROJECT

Section 3.1 **Installment Purchase of the Project by the District; Title**. The Corporation hereby sells the Project to the District for the Purchase Price, as described in Section 4.1 (Purchase Price). All right, title and interest in each component of the Project shall vest in the District immediately upon construction thereof. Such vesting shall occur without further action by the Corporation or the District, and the Corporation shall, if requested by the District or if necessary to assure such automatic vesting, deliver any and all documents required to assure such vesting.

Section 3.2 **Construction of the Project**. The Corporation hereby agrees that, following the delivery of the Certificate, it shall cause the Project to be constructed by the District as its agent. The District shall enter into contracts and provide for, as agent for the Corporation, the complete construction of the Project. The District hereby agrees that it will cause the construction of the Project to be diligently performed after the deposit of funds pursuant to Section 3.3 (Application of Proceeds).

It is hereby expressly understood and agreed that the Corporation shall be under no liability of any kind or character whatsoever for the payment of any cost of the Project and that all such costs and expenses shall be paid by the District, regardless of whether the funds deposited pursuant to Section 3.3 (Application of Proceeds) are sufficient to cover all such costs and expenses.

Section 3.3 **Application of Proceeds**. To pay the costs of construction of the Project and the costs of issuance of the Certificate, USDA Rural Utilities Service has agreed, in exchange for the Corporation's assignment of its interests hereunder, to advance to the District a total of $[PRINCIPAL AMOUNT] in accordance with Section II(5) of the Letter of Conditions. The District agrees that it will apply the funds received for the following purposes:

(a) Costs of Issuance. to pay costs of issuance of the Certificate (estimated at $_____); and

(b) Project Costs: to deposit the balance of the funds received into the Construction Account, which is hereby established for the Project, under the control of the District.

ARTICLE IV
INSTALLMENT PAYMENTS

Section 4.1 Purchase Price.

(a) The Purchase Price to be paid by the District hereunder to the Corporation is the sum of the principal amount of the District's obligations hereunder plus the interest to accrue on the unpaid balance of such principal amount from the effective date hereof over the term hereof, subject to prepayment as provided in Article VII.

(b) The principal amount of the payments to be made by the District hereunder is set forth in Exhibit A hereto.

(c) The interest to accrue on the unpaid balance of such principal amount is as specified in Section 4.2 (Installment Payments) and Exhibit A hereto and shall be paid by the District as and constitute interest paid on the principal amount of the District's obligations hereunder.

Section 4.2 Installment Payments. The District shall, subject to its rights of prepayment provided in Article VII (Prepayment of Installment Payments), pay the Corporation the Purchase Price in installment payments of interest and principal in the amounts and on the Installment Payment Dates as set forth in Exhibit A hereto.

Interest shall accrue at the rate of 2.25% per annum on the aggregate unpaid principal components of Installment Payments, calculated based on a 365-day year and actual days elapsed.

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

The obligation of the District to make the Installment Payments out of Water Net Revenues is absolute and unconditional, and until such time as the Purchase Price shall have been paid in full, the District will not discontinue or suspend any Installment Payments required to be made by it under this section when due, whether or not the Water System or any part thereof is operating or operable, or its use is suspended, interfered with, reduced or curtailed or terminated in whole or in part, and whether or not the Project has been completed, and such payments shall not be subject to reduction whether by offset or otherwise and shall not be conditional upon the performance or nonperformance by any party of any agreement for any cause whatsoever.

The District's obligations to make the Installment Payments and other obligations of the District hereunder are special obligations of the District payable solely from, and secured by a pledge of and lien upon the Water Net Revenues. The Installment Payments do not constitute a debt of the District, the Corporation, the State of California or any political subdivision thereof within the

meaning of any constitutional or statutory provision or limitation. Neither the full faith and credit nor the taxing power of the District, the State of California or any political subdivision thereof is pledged to the payment thereof.

Section 4.3 **Net Contract**. This Installment Purchase Agreement shall be deemed and construed to be a net contract, and the District shall pay absolutely net during the term hereof the Installment Payments and all other payments required hereunder, free of any deductions and without abatement, diminution or set-off whatsoever.

ARTICLE V
SECURITY

Section 5.1 **Pledge of Water Net Revenues**. The District hereby irrevocably pledges all of the Water Net Revenues to the payment of the Installment Payments. This pledge shall constitute a first lien on the Water Net Revenues for the payment of the Installment Payments on parity with the pledge of Water Net Revenues that secures the Parity Debt.

Section 5.2 **Establishment and Funding of the Reserve Fund**.

(a) Establishment of the Reserve Fund. In accordance with Paragraph II(6)(a) of the Letter of Conditions, the District has established and promises to maintain a fund designated as "Reserve Fund _____" (the "Reserve Fund"). On each anniversary of the delivery of the Certificate, commencing in 201___, the District shall from Water Net Revenues deposit into the Reserve Fund an amount equal to one-tenth (1/10) of the average annual amount payable as Installment Payments until the amount on deposit in the Reserve Fund is equal to the Reserve Requirement.

(b) Application of the Reserve Fund. In accordance with Paragraph 14 of the Loan Resolution, the District may withdraw and apply funds from the Reserve Fund only with the prior approval of USDA Rural Utilities Service and only (i) to make Installment Payments when no other funds of the District are available therefor, (ii) to pay the final Installment Payment, or (iii) to fund emergency maintenance to the Water System, extensions to the Water System, and replacement of short-lived assets used in connection with the Water System. The District shall deposit any earnings received from the investment of funds in the Reserve Fund therein until the balance of the Reserve Fund is equal to the Reserve Requirement; thereafter, the District shall deposit any such earnings into its water enterprise fund.

(c) Replenishment of the Reserve Fund. On or before the last day of each month, the District shall deposit in the Reserve Fund one-twelfth (1/12) of the amount of any prior withdrawal from the Reserve Fund until the amount withdrawn is fully restored to the Reserve Account.

Section 5.3 **Depreciation Reserve**.

(a) Establishment and Funding of a Depreciation Reserve. In accordance with Paragraph II(6)(b) of the Letter of Conditions, the District has established and promises to maintain a fund designated as "Water Short-Lived Asset Replacement Reserve Fund 2018" (the "Replacement Reserve Fund"). On each anniversary of the delivery of the Certificate, for as long as the Installment Payments are unpaid, the District shall from Water Net Revenues deposit into the Replacement

Reserve Fund not less than $45,100 to provide for the timely replacement of short-lived assets; provided that, before each anniversary date, the District shall evaluate the condition of the short-lived assets of the Water System, estimate the amount required for timely replacement of short-lived assets, and shall increase or may decrease the amount to be deposited as appropriate, based on such evaluation. For purposes of this section, "short-lived assets" means equipment and other components of the Water System that have a useful life of not more than fifteen (15) years, which is significantly less that the repayment period of the Certificate.

(b) Application of the Depreciation Reserve. In accordance with Paragraph II(6)(b) of the Letter of Conditions, the District may withdraw and apply funds from the Replacement Reserve Fund only for replacement of short-lived assets used in connection with the District's Water System.

ARTICLE VI
COVENANTS OF THE DISTRICT

Section 6.1 Compliance with Installment Purchase Agreement and Loan Resolution. The District will punctually pay the Installment Payments in strict conformity with the terms hereof, and will faithfully observe and perform all the agreements, conditions, covenants and terms contained herein required to be observed and performed by it, and will not terminate this Installment Purchase Agreement for any cause. The District will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Loan Resolution resolved therein to be observed and performed by it.

Section 6.2 Tax Covenant. The District shall at all times do and perform all acts and things permitted by law that are necessary and desirable in order to assure that interest paid with respect to the Certificate will be excluded from gross income for federal income tax purposes and shall take no action that would result in such interest not being so excluded. This covenant shall survive the payment in full of the Installment Payments.

Section 6.3 Additional Debt.

The District may incur obligations secured by the Water Net Revenues with the prior written consent of USDA Rural Utilities Service in accordance with Section 7 of the Loan Resolution.

Section 6.4 Protection of Security and Rights of the Corporation. The District will preserve and protect the security hereof and the rights of the Corporation to the Installment Payments hereunder and will warrant and defend such rights against all claims and demands of all persons.

Section 6.5 Indemnification of Corporation. The District hereby agrees to indemnify and hold harmless the Corporation and its directors, officers and employees if and to the extent permitted by law, from and against all claims, advances, damages and losses, including legal fees and expenses, arising out of or in connection with the acceptance or the performance of its duties hereunder and the Assignment Agreement; provided that no indemnification will be made for willful misconduct, negligence or breach of an obligation hereunder or the Assignment Agreement by the Corporation.

Section 6.6 Further Assurances. The District will adopt, deliver, execute and make any and all further assurances, instruments and resolutions as may be reasonably necessary or proper to

carry out the intention or to facilitate the performance hereof and for the better assuring and confirming unto the Corporation of the rights and benefits provided to it herein.

ARTICLE VII
PREPAYMENT OF INSTALLMENT PAYMENTS

Section 7.1 **Prepayment**. Prepayments of scheduled installments, or any portion thereof, may be made at any time at the option of the District with the prior written consent of the USDA Rural Utilities Service. Refunds and extra payments, as defined in the regulations of USDA Rural Utilities Service according to the source of funds involved, shall, after payment of interest, be applied to the Installment Payments last to become due hereunder and shall not affect the obligation of the District to pay the remaining Installment Payments as scheduled herein. Any such prepayment shall be applied to redeem all or a portion of the Certificate.

ARTICLE VIII
EVENTS OF DEFAULT AND REMEDIES OF THE CORPORATION

Section 8.1 **Events of Default and Remedies**.

(a) Events of Default. The following shall be Events of Default hereunder:

Failure by the District to pay any Installment Payment at the time specified herein.

Failure by the District to observe and perform any covenant, condition or agreement on its part contained herein or in the Loan Resolution, other than in clause (1) of this subsection, for a period of thirty (30) days after written notice specifying such failure and requesting that it be remedied has been given to the District by the Corporation; provided, however, that the Corporation and the District may agree that action by the District to cure such failure may be extended beyond such thirty-day period.

(b) Remedies on Default. Whenever any Event of Default shall have happened and be continuing, the Corporation shall have the right, at its option upon notice to the District, to:

declare the entire principal amount of the unpaid Installment Payments and the accrued interest thereon to be immediately due and payable, whereupon the same shall immediately become due and payable;

for the account of the District, incur and pay reasonable expenses for repair, maintenance, and operation of the Water System and such other reasonable expenses as may be necessary to cure the cause of default, and/or

take possession of the Water System, repair, maintain, and operate or rent it.

The provisions of the preceding clause (1) are subject to the condition that if, at any time after the principal amount of the unpaid Installment Payments shall have been so declared due and payable pursuant to the preceding clause (1), and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the District shall deposit with the Corporation a sum sufficient to pay the unpaid principal amount of the Installment

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

Section 8.2 **Application of Funds Upon Acceleration**. Upon the date of the declaration of acceleration as provided in Section 8.1 (Events of Default and Remedies), all Water Net Revenues thereafter received by the District shall be applied in the following order --

First, to the payment, without preference or priority, and in the event of any insufficiency of such Water Net Revenues ratably without any discrimination or preference, of the fees, costs and expenses of the Corporation if any, in carrying out the provisions of this article, including reasonable compensation to their respective accountants and counsel;

Second, to the payment of the Operation and Maintenance Expenses; and

Third, to the payment of the entire principal amount of the unpaid Installment Payments and the unpaid principal amount of any Parity Debt and the accrued interest thereon on a proportionate basis, with interest on the overdue installments at the rate or rates of interest applicable to the Installment Payments and such Parity Debt if paid in accordance with their respective terms.

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

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

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

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

Section 8.4 **Non-Waiver**. Nothing in this article or in any other provision hereof shall affect or impair the obligation of the District, which is absolute and unconditional, to pay the Installment Payments to the Corporation at the respective due dates or upon prepayment, or shall affect or impair the right of the Corporation, which is also absolute and unconditional, to institute suit to enforce such payment by virtue of the contract embodied herein.

A waiver of any default or breach of duty or contract by the Corporation shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Corporation to

exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Corporation by law or by this article may be enforced and exercised from time to time and as often as shall be deemed expedient by the Corporation.

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

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

ARTICLE IX
ASSIGNMENT; AMENDMENTS

Section 9.1 **Assignment**. The District hereby consents to the assignment by the Corporation of its rights under this Installment Purchase Agreement to USDA Rural Utilities Service, which rights are evidenced by the Certificate. The District shall maintain a register containing the name and address of the Owner.

The Owner may transfer ownership of the Certificate by surrender thereof to the District accompanied by a duly executed instrument of transfer in a form approved by the District. The District shall deliver to the transferee a new Certificate in the aggregate amount of the unpaid principal installments and shall record the transfer in the Certificate register.

Section 9.2 **Amendments Permitted**.

(a) This Installment Purchase Agreement and the rights and obligations of the Corporation and the District and of the Owner may be modified or amended at any time but only with the written consent of the Owner. No such modification or amendment shall (1) reduce the rate of interest or amount of principal represented by the Certificate or extend the time of payment of principal or interest represented thereby, without the consent of the Owner, or (2) modify the requirement for the consent of the Owner for the execution of any amendment or modification of this Installment Purchase Agreement, or (3) modify any of the rights or obligations of the Corporation without its written consent thereto.

(b) This Installment Purchase Agreement and the rights and obligations of the Corporation and the District and of the Owner may also be modified or amended at any time, without the consent of the Owner, but only to the extent permitted by law and only for any one or more of the following purposes--

to add to the covenants and agreements of the Corporation or the District contained in this Installment Purchase Agreement other covenants and agreements thereafter to be observed or

to surrender any right or power herein reserved to or conferred upon the Corporation or the District, and that shall not adversely affect the interests of the Owner;

to cure, correct or supplement any ambiguous or defective provision contained in this Installment Purchase Agreement or in regard to questions arising under this Installment Purchase Agreement, as the Corporation or the District may deem necessary or desirable and that shall not adversely affect the interests of the Owner; and

to make such other amendments or modifications as may be in the best interests of the Owner.

[Signature page follows]

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

SWEETWATER SPRINGS WATER DISTRICT

By:_____
General Manager

MUNICIPAL ASSET FINANCE CORP.

By:_____
Secretary/Treasurer

EXHIBIT A

PURCHASE PRICE

1. The aggregate principal amount of payments to be made by the District hereunder with respect to the Certificate is $_____.

2. The principal components of the Installment Payments with respect to the Certificate are payable in the following amounts on _____ 1 in the following years:

Year	Amount	Year	Amount	Year	Amount	Year	Amount

On _____ 1, ____the District shall pay as the interest component of its Installment Payment an amount equal to _____% per annum of the amount of each advance from its actual date as shown on the Certificate calculated based on a 365-day year and actual days elapsed. On each _____ 1 and _____ 1 thereafter, to and including _____ 1, 20___, the District shall pay as the interest component of its Installment Payments an amount equal to one-half of _____% of the aggregate amount of advances made that have not been repaid as principal components of Installment Payments.