SWEETWATER SPRINGS WATER DISTRICT

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

FROM: Steve Mack, General Manager

MEETING DATE: August 1, 2013

SUBJECT: DISCUSSION/ACTION RE APPROVAL OF RESOLUTION 13-18 WHICH AUTHORIZES THE ISSUANCE OF A REFUNDING BOND IN AN AMOUNT NOT TO EXCEED $10,000,000 AND THE EXECUTION AND DELIVERY OF A BOND ISSUANCE AGREEMENT AND PLACEMENT AGENT AGREEMENT AND AUTHORIZING CERTAIN RELATED MATTERS

RECOMMENDED ACTION: 1. Approve Resolution 13-18 which authorizes the Board President to execute necessary agreements to issue a bond to Capital One Bank to refinance 20 years of the District United States Department of Agriculture (USDA) bonds; and

2. Consider directing the General Manager to take necessary actions to pay off the remainder of the District's USDA bonds, approximately $1.6 million, with District reserves.

FISCAL IMPACT: Refinancing/refunding 20 years of District bonds with the Capital One bond reduce District debt payments approximately $45,000 annually. Paying off the remaining bonds will require use of approximately $1.6 million in District reserves and reduce debt payments in the first 20 years by approximately $72,500 and approximately $200,000 for the nine years after that.

DISCUSSION:

Background

The District has been moving forward with refinancing the District's USDA bonds (Prior Bonds) since February. The Prior Bonds consist of two series of loans with the USDA. The initial loan was for $8,000,000 at a fixed rate of 5.0% with a final maturity of 2031. There is $5,651,307 outstanding on this loan. The second loan was for $4,000,000 at a fixed rate of 4.5% with a final maturity of 2042. There is $3,605,000 currently outstanding on this loan. Both USDA loans are callable at any time with no prepayment penalty.

The Underwriters working for the District, Brandis Tallman, and associated bond refinancing legal counsel from Meyers Nave had been progressing forward with a public refinancing until June 19 when comments by the Federal Reserve Bank Chairman Ben Bernanke sent the financial markets into a period of instability and lower prices on bonds. This made refinancing at that time (we were set to price the bonds on the 20th) infeasible. Since then the refinancing team followed the bond

markets with the hope that they would return to a place where a public offering made sense for the District. That hasn't happened.

Because the bond market has experienced one of its most turbulent periods in the last 25 years, the financing team also explored a private placement method of sale: A sale to one qualified investor, such as a bank. The limitation of a private placement is that the term cannot extend beyond 20 years. This would allow for the complete refunding of the 1992 Loan and a partial refunding of the 2003 Loan. The 2003 Loan has approximately $1,611,000 outstanding in years 21 through 29 so that portion would remain due and payable to the USDA. The District has received a private placement offer from Capital One Bank that produces an all-in true interest cost of 3.87%, average fiscal year savings of $44,985, and total savings of $925,014. Net present value savings are $647,956 or 8.48%. The interest rate on the private placement is locked for up to 30 days while the paperwork on the transaction is in process.

As noted above, the private placement offer of refunding 20 years of USDA bonds leaves a residual of $1,611,000 in USDA bonds that mature in years 21-29. This raises the possibility of two alternatives to the simple refunding of 20 years of USDA bonds:

- Refund 20 years of USDA bonds and pay off the residual using District Reserves; and
- Refund all 29 years of USDA bonds with a 20 year private placement bond.

At the July Board meeting staff and the financing team were asked to evaluate those alternative along with the original private placement option, meet with the ad hoc Budget Committee and provide a recommendation for the August meeting.

Table 1 below shows the summary information on the three alternatives for the private placement bond (PPB) with Capital One Bank. In short:

- Partial refunding reduces the District's annual debt payments by approximately $45,000 per year but leaves a 'tail' debt payment in years 21-29 of approximately $200,000 per year.
- Full refunding of all 29 years reduces the District's annual debt payments by approximately $5,600 per year but has payments on the USDA debt after year 20.
- Partial refunding and paying off the residual USDA bonds of $1.6 million reduces the District's annual debt payments by approximately $117,500 in the first 20 years and $200,000 in years 21-29.

Figure 1 below shows the annual debt payments with the various PPB refinancing alternatives:

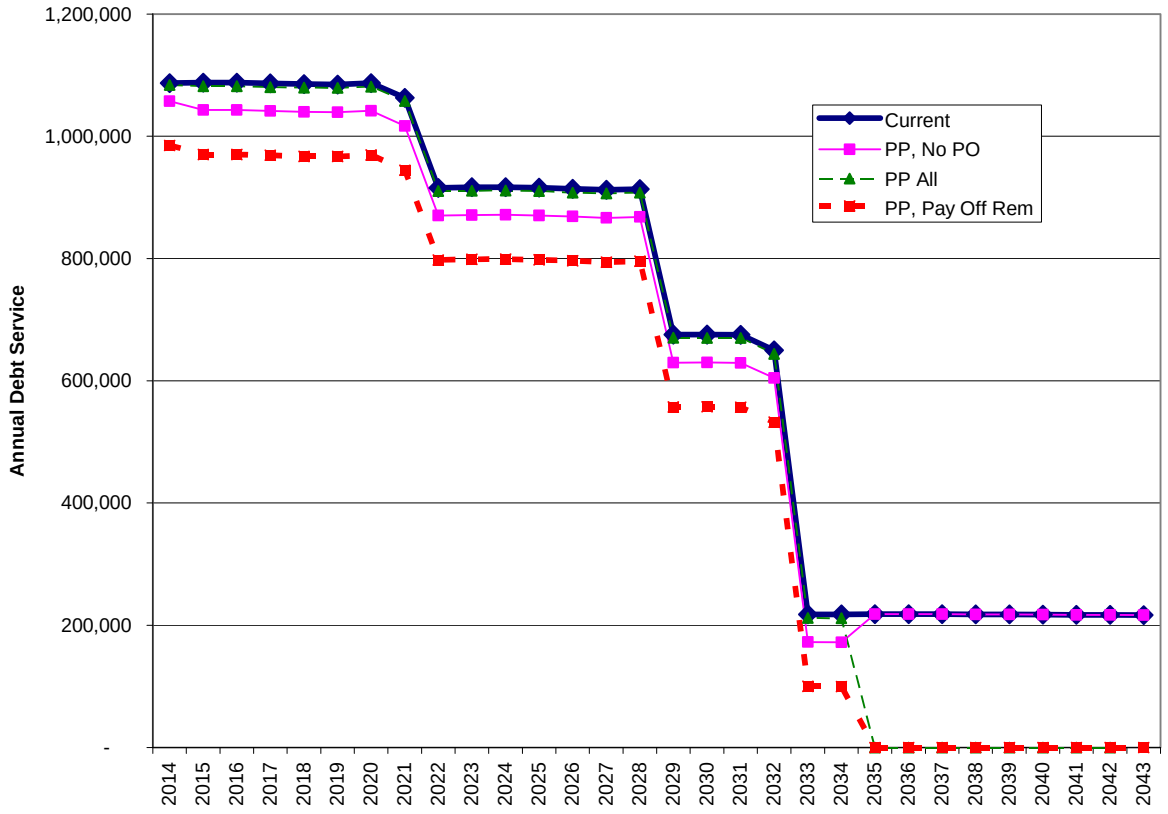
Table 1. Comparison of Partial Refunding (20 years) and Full Refunding

	20 Year Private Placement (Partial Refunding)	20 Year Private Placement (Full Refunding)	20 Year Private Placement (Partial Refunding, Pay Off Remainder)
Par Amount	$ 7,982,000	$ 9,639,000	$ 7,982,000
All In True Interest Cost	3.87%	3.84%	3.87%
Average Fiscal Year Savings:			
First 20 Years	$ 44,985	$ 5,646	$ 117,480
Last 9 Years	None	$ 217,602	$ 217,602
Total Savings	$ 925,014	$ 2,074,319	Not Calculated
NPV Savings	$ 647,956	$ 873,636	Not Calculated
NPV Savings %	8.48%	9.43%	Not Calculated
Total Debt Service (1)	$ 14,368,640	$ 13,219,334	Not Calculated
Use of District Reserves	None	None	$ 1,611,000
Avg. Fiscal Year Debt Service:			
First 18 Years	$635,012	$673,447	$562,517
Years 19 and 20	$172,496	$211,925	$100,001
Last 9 Years	$217,603	None	None

(1) For the partial refunding scenario, includes debt service due on the remaining balance of the 2003 Loan that does not get refunded.

Figure 1. Comparison of District Annual Debt Payments with Various PPB Refinancing Alternatives.

Figure 1. Comparison of District Annual Debt Service with Various Refinance Alternatives



Effect on District Finances

To choose between these alternatives we need to see the effect on District finances over time and to adequately show the effect we need to develop a new term for our budget analysis – **Net Capital Funding**.

In prior financial planning discussions and in the long-term budget models, I have been using the term '**net operating revenues'** which is the amount of the transfer to CIRF and the Operating Budget surplus. We had a goal of achieving an annual amount of $500,000 in net operating revenues. Because the refinancing is saving money from the Capital Budget side of District finances and the changes in debt payment reductions do not show up in net operating revenues, the term '**net capital funding'** has been developed to show the total picture on funding available for capital funding including changes in annual debt payments. Net capital funding is the sum of net operating revenues plus capital budget revenues including the annual assessment, the Capital Debt Reduction Charge (CDRC) revenue and interest income minus debt payments. In the FY

2013-14 Budget net operating revenues is $406,655, and net capital funding, as defined above, is $363,151, a difference of $43,514. With identical debt payments, a goal of $500,000 for **net operating revenues** would equate to approximately $460,000 in **net capital funding**, which isn't substantially different at that funding level. For evaluating these alternatives in the rest of this report I will be using **net capital funding** as one of the measures.

The three PPB refinancing alternatives were run through the financial planning model with the FY 2012-2013 budget as the starting point and using the end of year Reserves Above Policy amount from the end of year budget actual presented at this meeting. Table 2 shows the results of the model for net capital funding and for end of year Reserves Above Policy. These results are shown graphically in Figures 2 and 3.

Figure 2 shows that net capital funding is most increased with the Pay off residual alternative - that isn't surprising because it decreases annual debt payments by an additional $72,500 over the non pay off alternative which is the next best. The alternative that refunds all 29 years with a 20 year refinancing is very similar to the status quo. There is also a scenario that shows increasing rates only 2 out of 3 years with the partial refunding and no repayment – that shows net capital funding going above $500,000 within the planning period.

Figure 3 shows that the pay off scenario dips well into Policy Reserves (Reserves Above Policy go negative) for six consecutive years assuming the approved CIP. The partial pay off scenario has the best outcome and allows for additional CIP during the planning period – this scenario shows an additional $1 million in CIP. The alternative that funds the 29 years in 20 years is very similar to the status quo.

Dipping into Policy Reserves as deeply as the pay off alternative apparently requires is an issue. Postponing a year of capital improvements would largely fix that.

The Budget Committee met twice to discuss these alternatives. For the analysis presented at those meetings I used a starting Reserves Above Policy that was approximately $800,000 higher (the end of year actuals were not available then) and the Reserves Above Policy numbers they saw never dipped into negative territory. I apologize for the mistake. The Budget Committee recommended going with the alternative that does the partial repayment and then paying off the remainder of the debt with District reserves. Having a more correct view of the analysis results regarding reserves above policy would have likely changed that recommendation.

The decision on refunding the residual USDA bonds does not have to be made coincident with the decision to refinance the 20 years of USDA bonds. However, the Board does have to make a decision whether to do the 20 year partial refinancing or the 29 years of bonds with a 20 year refinancing at this Board meeting. The interest rate is locked until the end of August and the amount to be financed needs to be set now.

Table 2. Summary of Net Capital Funding and Reserves Above Policy

	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
NET CAPITAL FUNDING, 20 yr refi, pay off remainder of bonds	327,516	535,628	548,363	610,407	572,673	635,178	657,065	722,359	768,116	909,128
Ending Funds ab District Policy, 20 yr refi, pay off remainder of bonds	2,354,329	275,957	(151,680)	(471,273)	(752,600)	(157,421)	(345,356)	(662,997)	65,119	(65,753)
NET CAPITAL FUNDING, 20 yr refi, don't pay off remainder of bonds	327,516	463,628	476,363	538,407	500,673	563,178	585,065	650,359	696,116	837,128
Ending Funds ab District Policy, 20 yr refi, pay off remainder of bonds	2,354,329	1,803,957	1,304,320	912,727	559,400	1,082,579	822,644	433,003	1,089,119	886,247
NET CAPITAL FUNDING, 20 yr refi of all bonds	327,516	424,128	436,863	498,907	461,173	523,678	545,565	610,859	656,616	797,628
Ending Funds ab District Policy, 20 yr refi, pay off remainder of bonds	2,354,329	1,764,457	1,225,320	794,227	401,400	885,079	585,644	156,503	773,119	530,747
NET CAPITAL FUNDING, No Refi	327,516	418,628	431,363	493,407	455,673	518,178	540,065	605,359	651,116	792,128
Ending Funds ab District Policy, No Refi	**2,354,329**	**1,758,957**	1,214,320	777,727	379,400	857,579	552,644	118,003	729,119	481,247

Table 1A. OPERATING AND CAPITAL BUDGET
SUMMARY - 3% Increase, Approved CIP, 20 yr refi, Remaining USDA Bonds paid off, CIP delayed

Water Rate, CDRC Increase = 3% Sales Flat

		FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
1	**REVENUE**										
2	OPERATING REVENUE										
3	Water Bill Revenue										
4	Capital Debt Reduction Charge	238,000	245,140	252,494	260,069	267,871	275,907	284,184	292,710	301,491	234,300
5	Water Sales	1,948,000	2,006,440	2,066,633	2,128,632	2,192,491	2,258,266	2,326,014	2,395,794	2,467,668	2,541,698
6	Total NON-OPERATING REVENUE	110,500	108,810	109,628	110,454	111,289	112,132	112,983	113,843	114,711	115,589
7	**Total Income**	2,296,500	2,360,390	2,428,756	2,499,156	2,571,651	2,646,305	2,723,181	2,802,347	2,883,871	2,891,587
8	**EXPENSES**										
9	OPERATING EXPENSES										
11	SALARY & BENEFITS	1,095,000	1,082,877	1,092,558	1,116,915	1,201,095	1,228,279	1,256,231	1,284,992	1,314,573	1,345,016
12	SERVICES & SUPPLIES increase =	1%									
13	SERVICES & SUPPLIES	524,670	529,571	534,520	539,520	544,569	550,533	556,571	562,682	568,868	575,129
14	TOTAL OPERATING EXPENSES	1,619,670	1,612,448	1,627,079	1,656,434	1,745,664	1,778,813	1,812,802	1,847,674	1,883,441	1,920,145
15	***OPERATING SURPLUS/DEFICIT***	$676,830	$747,942	$801,677	$842,721	$825,987	$867,492	$910,379	$954,673	$1,000,430	$971,442
16	FIXED ASSET EXPENDITURES	20,000	5,000	26,000	5,000	26,000	5,000	26,000	5,000	26,000	5,000
17	TRANSFERS TO OTHER FUNDS										
18	Tfers to CIRF for CDR Revenue	238,000	245,140	252,494	260,069	267,871	275,907	284,184	292,710	301,491	234,300
19	Tfers to CIRF	360,000	440,000	470,000	520,000	480,000	530,000	550,000	600,000	620,000	680,000
20	Total TRANSFERS TO OTHER FUNDS	638,000	725,140	722,494	780,069	747,871	805,907	874,184	892,710	921,491	954,300
21	***SURPLUS/DEFICIT***	18,830	17,802	13,183	17,652	12,116	16,585	10,195	16,963	12,939	12,142
22	**Capital Budget**										
23	REVENUE/SOURCES OF FUNDS	CIP 2014*		CIP 2015	CIP 2016	CIP 2017	CIP 2018	CIP 2019	CIP 2020	CIP 2021	CIP 2022
24	Net Operating Revenues**	378,830	457,802	483,183	537,652	492,116	546,585	560,195	616,963	632,939	692,142
25	Assessments	777,000	777,000	777,000	777,000	777,000	777,000	777,000	777,000	777,000	777,000
26	Capital Debt Reduction Charge***	238,000	245,140	252,494	260,069	267,871	275,907	284,184	292,710	301,491	234,300
27	Capital Interest	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000
28	CDC Grants										
29	Transfers From CIRF/Reserves	300,000	610,000	560,000	450,000	410,000	330,000	450,000	360,000	470,000	260,000
30	***TOTAL REVENUE***	2,633,830	2,119,942	2,084,677	2,064,721	1,956,987	1,969,492	1,955,379	2,086,673	1,921,430	1,973,442
31	**EXPENSES**										
32	Total Debt Payments	974,314	974,314	974,314	974,314	974,314	974,314	974,314	974,314	953,314	804,314
33											
34	Annual CIP	1,490,000	974,000	0	936,000	890,000	-	814,000	805,000	1,000,000	1,000,000
35	In-House Construction Projects	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000
36	***TOTAL EXPENSES***	2,621,314	1,988,314	1,014,314	1,950,314	1,904,314	1,014,314	1,828,314	1,819,314	993,314	1,844,314
37	***SURPLUS/DEFICIT***	11,766	131,628	1,068,363	84,407	52,673	595,178	123,065	327,359	728,116	129,128
38	FUND AND LOAN BALANCES (EOY)										
39	Ending Funds ab District Policy	2,354,329	275,957	784,320	418,727	61,400	656,579	459,644	337,003	1,065,119	934,247
40	NET CAPITAL FUNDING****	327,516	535,628	548,363	610,407	572,673	635,178	657,065	722,359	768,116	909,128

* Starting values based on projected FY13 EOY

** =Transfer to CIRF plus net operating surplus

*** =Transfers from CDRC

**** =Net Operating Revenues + Assessments + CDRC + Capital Interest - Total Debt Payments

		258,830	337,802	363,183	417,652	372,116		440,195	496,963	512,939	572,142
Net Capital Funding		327,516	535,628	548,363	610,407	572,673		657,065	722,359	768,116	909,128
% Budget Debt Pmts		24%	24%	28%	22%	22%	22%	21%	21%	25%	17%

Table 1A. OPERATING AND CAPITAL BUDGET
SUMMARY - 3% Increase, Approved CIP, 20 yr refi, Remaining USDA Bonds paid off, CIP delayed

Water Rate, CDRC Increase = 3% Sales Flat

Required Actions

To move forward with the refinancing the Board needs to approve Resolution 13-18 which authorizes the General Manager to execute the Bond Issuance Agreement (Exhibit A, attached is a draft; we will have final prior to the Board meeting) with Capital One Bank. A draft Resolution 13-18 for partial refunding is also attached – at the meeting we will have two final versions - one for the partial refunding and one for the full refunding. The final resolutions are not available at the writing of this report; we will forward them on when made available to us. Salient points of the private placement bond structure include the following:

The Bond Issuance Agreement authorizes the issuance of a general obligation refunding bond (the "Bond") to refund the District's two outstanding USDA bonds, per the original authorization for the two prior bonds. The Bond would be issued as a single bond with installment payments of principal and interest. There is no paying agent appointed -- the District will make payments directly to the owner of the bond (Capital One). The Bond would have the basic elements of the water revenue security structure taken from the Trust Indenture that was approved by the Board on June 6th. The District's payment obligation is not limited to Net Revenues with the added promise to use its authority to levy the ad valorem taxes only if Net Revenues are ever insufficient to pay the Bonds. The included draft Bond Issuance Agreement provides for the partial repayment. If the Board decides on full repayment, the Agreement can be modified to accomplish that.

Resolution 13-18 includes a section engaging Brandis Tallman as Placement Agent. The District engaged Brandis Tallman to do the underwriting services for a public offering for the refunding. Changes in the bond market made it financially more appealing for the refinancing to be done with a private placement bond. As such, we need to change our agreement with Brandis Tallman LLC to reflect the changed nature of the refinancing and that is included in Resolution 13-18. The actual cost for the services from Brandis Tallman will not change under the agreement. At the time of this writing the necessary agreement for this change in services is not available. We will make it available when possible.

Upon approval of Resolution 13-18, staff, the Underwriter (Placement Agent, see next agenda item) and Capital One Bank will work to complete the refinancing. We anticipate that the refinancing will close on about August 21.

DRAFT
KMTG
25 JUL 13

Exhibit A

BOND ISSUANCE AGREEMENT

made by the

SWEETWATER SPRINGS WATER DISTRICT

Dated August 1, 2013

Relating to the

$[7,982,000]
Sweetwater Springs Water District
(Sonoma County, California)
Improvement District No. 1
2013 General Obligation Refunding Bond

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EXHIBIT A -- FORM OF BOND A-1

BOND ISSUANCE AGREEMENT

This BOND ISSUANCE AGREEMENT (the "Agreement"), dated August 1, 2013, is made by 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, for the benefit of the owners from time to time of the bond issued hereunder.

RECITALS

1. The District issued its Improvement District No. 1 General Obligation Bonds of 1990, Series 1992 (the "Series 1992 Bonds"), in the aggregate principal amount of $8,000,000, pursuant to Resolution No. 64, adopted by the Board of Directors of the District (the "Board") on October 9, 1991, as amended by Resolution No. 79, adopted by the Board on March 16, 1992;

2. The District issued its Improvement District No. 1 General Obligation Bonds of 1990, Series 2003 (the "Series 2003 Bonds"), in the aggregate principal amount of $4,000,000, pursuant to Resolution No. 03-15, adopted by the Board on April 3, 2003;

3. There remains outstanding $5,680,000 principal amount of the Series 1992 Bonds and $3,605,000 principal amount of the Series 2003 Bonds;

4. Pursuant to Article 9 (Sections 53550 and following) and Article 11 (Sections 53580 and following) of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code and other applicable law, the District is authorized to issue refunding bonds to refund all or a portion of the Series 1992 Bonds and the Series 2003 Bonds (collectively, the "Prior Bonds.")

5. The Board, by its Resolution No. _____, adopted on August 1, 2013 (the "Resolution"), has determined that prudent management of the District's financial affairs requires that the Series 1992 Bonds and the Series 2003 Bonds that mature on or before September 1, 2033 (the "Refunded Prior Bonds") now be refunded and has authorized the issuance and sale of its "Sweetwater Springs Water District (Sonoma County, California) Improvement District No. 1 2013 General Obligation Refunding Bond" (the "Bond") and the execution and delivery of this Agreement on behalf of the District;

6. The District has found and determined that 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 entering into of this 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 Agreement.

AGREEMENT

In order to secure the payment of the Bond and the performance and observance by the District of all the covenants, agreements and conditions herein and in the Bond contained, the District hereby agrees and covenants with the owners from time to time of the Bond, as follows:

ARTICLE I
DEFINITIONS AND GENERAL PROVISIONS

Section 1.1. **Definitions.** Unless the context otherwise requires, the terms defined in this Section 1.1 shall, for all purposes hereof and of any amendment hereof or supplement hereto and of the Bond and of any certificate, opinion, request 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:

Accountant's Report means a report signed by an Independent Certified Public Accountant.

Agreement means this agreement made by the District.

Board means the Board of Directors of the District.

Board of Supervisors means the Board of Supervisors of the County of Sonoma.

Bond means the Sweetwater Springs Water District (Sonoma County, California) Improvement District No. 1 2013 General Obligation Refunding Bond issued hereunder.

Business Day means any day of the week other than a Saturday or a Sunday or a day on which banks in the State are not required or authorized to remain closed and on which the New York Stock Exchange is open for business.

Code means the Internal Revenue Code of 1986, as the same shall be hereafter amended, and any regulations heretofore issued or that shall be hereafter issued by the United States Department of the Treasury thereunder.

County means the County of Sonoma.

Debt Service means, during any period of computation, the amount obtained for such period by totaling the following amount--

(1) the interest coming due and payable during such period on the Bond, the Unrefunded Prior Bonds, and all outstanding Senior Obligations, assuming that all outstanding Senior Obligations are retired or redeemed or paid from sinking fund payments as scheduled (except to the extent that such interest is to be paid from the proceeds of sale of any such Senior Obligations), and

(2) the principal amount of the Bond and Senior Obligations coming due and payable by their terms in such period or scheduled to be redeemed by operation of mandatory sinking fund deposits in such period,

provided that:

(a) Variable Rates: if any of such Senior Obligations bear interest payable pursuant to a variable interest rate formula, the interest rate on such Senior Obligations

for periods when the actual interest rate cannot yet be determined, shall be assumed to be equal to the greater of:

(i) the actual rate on the date of calculation, or if such Senior Obligations are not yet outstanding, the initial rate (if then established and binding), and

(ii) if the Senior Obligations have been outstanding for at least twelve (12) months, the average rate over the twelve (12) months immediately preceding the date of calculation;

(b) Deduction of Available Amounts: principal and interest payments with respect to the Unrefunded Prior Bonds and Senior Obligations shall be excluded to the extent such payments are to be paid from (i) amounts on deposit with and escrow agent or other fiduciary in escrow specifically therefor, (ii) the proceeds of Senior Obligations held by a trustee, paying agent, or other fiduciary as funded (capitalized) interest specifically to pay such interest, or (iii) amounts received or expected to be received from a governmental entity that are related to the payment thereof (such as refundable credits payable by the U.S. Treasury); and

(c) Available Reserve Amounts: the amount on deposit in a debt service reserve fund with respect to Senior Obligations on any date of calculation of Debt Service shall be deducted from the amount of principal due at the final maturity of such Senior Obligations; and, to the extent the amount in such debt service reserve fund is in excess of such amount of principal, such excess shall be applied to the full amount of principal due, in each preceding year, in inverse order of due date, until such amount is exhausted.

Defeasance Securities means (a) direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America, (b) obligations fully and unconditionally guaranteed as to timely payment of the interest and principal by the United States of America, (c) obligations of any agency or instrumentality of the United States of America as to which the timely payment of the interest on and the principal of such obligations is backed by the full faith and credit of the United States of America, or (d) evidences of ownership of proportionate interests in future interest and principal payments on obligations described above held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated.

District means the Sweetwater Springs Water District.

DWR Loans means, collectively, the loans from the State Department of Water Resources, issued in the original aggregate principal amount of $2,870,000.

Engineer's Report means a report signed by an Independent Engineer.

Generally Accepted Accounting Principles means the uniform accounting and reporting procedures prescribed by the California State Controller or his successor for special districts in the State, or failing the prescription of such procedures means generally accepted accounting principles as presented and recommended by the American Institute of Certified

Public Accountants or its successor, or by the National Council on Governmental Accounting or its successor, or by any other generally accepted authority on such principles.

Gross Revenues means all gross charges (including surcharges, if any) received for, and all other gross income and receipts derived by the District from, the ownership and operation of the Water System or otherwise arising from the Water System, including but not limited to (a) connection charges, (b) investment earnings on amounts held in any other fund established with respect to the Water System, (c) the proceeds of any ad valorem property taxes received by the District, other than ad valorem property taxes levied for the purpose of paying bonded indebtedness of the District other than the Bond, and (d) rental income related to the Water System. Gross Revenues does not include (i) refundable deposits made to establish credit, and (ii) the proceeds of any special assessments or special taxes levied upon real property within any improvement district served by the District for the purpose of paying special assessment bonds or special tax obligations of the District relating to the Water System. Gross Revenues shall also include interest with respect to any Senior Obligations paid or reimbursed to or on behalf of the District by the United States of America.

Independent Certified Public Accountant means any certified public accountant or firm of such accountants duly licensed and entitled to practice and practicing as such under the laws of the State or a comparable successor, appointed and paid by the District, and who, or each of whom:

(1) is in fact independent according to the Statement of Auditing Standards No. 1 and not under the domination of the District;

(2) does not have a substantial financial interest, direct or indirect, in the operations of the District; and

(3) is not connected with the District as a member of the Board, officer or employee of the District, but who may be regularly retained to audit the accounting records of and make reports thereon to the District.

Independent Engineer means a registered engineer or firm of registered engineers generally recognized to be well-qualified in engineering matters relating to water systems, appointed and paid by the District, and who:

(1) is in fact independent and not under the domination of the District or any member thereof;

(2) does not have a substantial financial interest, direct or indirect, in the operations of the District; and

(3) is not connected with the District as a member of the Board, officer or employee of the District, but who may be regularly retained to make reports to the District.

Installment Sale Agreement means Installment Sale Agreement #08-033 dated as of July 3, 2008, between Municipal Finance Corporation and the District.

Interest Payment Date means March 1 and September 1 of each year. The first Interest Payment Date shall be September 1, 2013.

Law means Articles 9 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, and other applicable law.

Maximum Annual Debt Service means the greatest amount of Debt Service with respect to the Bond, Unrefunded Prior Bonds, or Senior Obligations to which reference is made coming due in any Fiscal Year including the Fiscal Year in which the calculation is made or any subsequent Fiscal Year.

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

Net Revenues means, for any period, an amount equal to all of the Gross Revenues received during such period minus the amount required to pay all Operation and Maintenance Expenses becoming payable during such period.

Operation and Maintenance Expenses means the reasonable and necessary costs and expenses paid by the District to maintain and operate the Water System, including but not limited to (a) costs of electricity and other forms of energy supplied to the Water System, (b) the reasonable expenses of management and repair and other costs and expenses necessary to maintain and preserve the Water System in good repair and working order, and (c) the reasonable administrative costs of the District attributable to the operation and maintenance of the Water System, such as salaries and wages of employees, overhead, taxes (if any), and insurance premiums, and including all other reasonable and necessary costs of the District or charges required to be paid by it to comply with the terms hereof. Operation and Maintenance Expenses do not include (i) debt service payable on obligations incurred by the District with respect to the Water System, including but not limited to debt service payments on the Bond, the Unrefunded Prior Bonds, and any Senior Obligations, (ii) depreciation, replacement and obsolescence charges or reserves therefor, and (iii) amortization of intangibles or other bookkeeping entries of a similar nature.

Opinion of Counsel means a written opinion of counsel experienced in the field of law relating to municipal bonds, appointed and paid by the District.

Original Purchaser means Capital One Public Funding, LLC.

Record Date means the 15th day of the month preceding any Interest Payment Date. The first Record Date shall be February 15, 2014.

Prior Bonds means the outstanding Sweetwater Springs Water District Improvement District No. 1 General Obligation Bonds of 1990, Series 1992 and Series 2003.

Redemption Price means the principal amount of the Bond called for redemption plus the applicable premium, if any, payable upon redemption thereof, plus interest accrued to the date fixed for redemption.

Refunded Prior Bonds means the outstanding Sweetwater Springs Water District Improvement District No. 1 General Obligation Bonds of 1990, Series 1992, and the outstanding

Sweetwater Springs Water District Improvement District No. 1 General Obligation Bonds of 1990, Series 2003, that mature on or before September 1, 2033.

Senior Obligations means the DWR Loans, the Installment Sale Agreement, and indebtedness or other obligations (including leases and installment sale agreements) hereafter issued or incurred by the District that are secured by a pledge of and lien on Net Revenues.

State means the State of California.

Tax Certificate means the Tax Certificate concerning certain matters pertaining to the use of proceeds of the Bond, executed and delivered by the District on the date of issuance of the Bond, including all exhibits attached thereto, as such certificate may from time to time be modified or supplemented in accordance with the terms thereof.

Unrefunded Prior Bonds means the outstanding Sweetwater Springs Water District Improvement District No. 1 General Obligation Bonds of 1990, Series 2003, that mature after September 1, 2033.

Water System means the entire existing system of the District for the collection, transmission, distribution and sale of water within the service area of the District, including but not limited to all facilities, properties, lands, rights, entitlements and other property useful in connection therewith, together with all extensions thereof and improvements thereto at any time acquired, constructed or installed by the District.

Section 1.2. **Effect of Headings and Table of Contents**. The headings or titles of the several Articles and Sections hereof, and any table of contents appended to copies hereof, shall be solely for convenience of reference and shall not affect the meaning, construction, or effect of this Agreement.

Section 1.3. **Successors and Assigns**. Whenever in this Agreement the District is named or referred to, such reference shall be deemed to include the successors or assigns thereof, and all the covenants and agreements in this Agreement contained by or on behalf of the District shall bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

Section 1.4. **Benefits of Agreement**. Nothing in this Agreement or in the Bond expressed or implied is intended or shall be construed to give to any person other than the District and the Owner of the Bond, any legal or equitable right, remedy or claim under or in respect of this Agreement or any covenant, condition or provision therein or herein contained; and all such covenants, conditions and provisions are and shall be held to be for the sole and exclusive benefit of the District and the Owner of the Bond.

Section 1.5. **Payments/Actions Otherwise Scheduled on Non-Business Days**. Except as specifically set forth in a Supplemental Agreement, any payments or transfers that would otherwise become due on any day that is not a Business Day shall become due or shall be made on the next succeeding Business Day. When any other action is provided for herein to be done on a day named or within a specified time period and the day named or the last day of the specified period falls on a day other than a Business Day, such action may be performed on the

next succeeding Business Day with the same effect as though performed on the appointed day or within the specified period.

Section 1.6. **No Personal Liability for Debt Service**. No Board member, officer, agent, or employee of the County or the District shall be individually or personally liable for the payment of the principal of or interest on the Bond or be subject to any personal liability or accountability by reason of the issuance thereof; but nothing herein contained shall relieve any such Board member, officer, agent, or employee of the County or the District from the performance of any official duty provided by law or by this Agreement.

Section 1.7. **County Immunities**. The District acknowledges that the County, including its Board of Supervisors, officers, officials, agents, and employees, shall retain all of their respective constitutional and statutory privileges, immunities, rights, and defenses in carrying out their statutory duties referred to herein.

Section 1.8. **Separability Clause**. If any one or more of the provisions contained in this Agreement or in the Bond shall for any reason be held to be invalid, illegal, or unenforceable in any respect, then such provision or provisions shall be deemed severable from the remaining provisions contained in this Agreement and such invalidity, illegality, or unenforceability shall not affect any other provision of this Agreement, and this Agreement shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein. The District hereby declares that it would have adopted this Agreement and each and every other Section, paragraph, sentence, clause, or phrase hereof and authorized the issuance of the Bond pursuant thereto irrespective of the fact that any one or more Sections, paragraphs, sentences, clauses, or phrases of this Agreement may be held illegal, invalid, or unenforceable.

Section 1.9. **Governing Law**. This Agreement shall be construed and governed in accordance with the laws of the State.

Section 1.10. **Counterparts**. This Agreement may be signed in several counterparts, each of which will constitute an original, but all of which shall constitute one and the same instrument.

Section 1.11 **Notices**. Unless otherwise specified herein, all notices, statements, orders, requests or other communications hereunder by any party to another shall be in writing and shall be sufficiently given and served upon the other party if delivered personally or if mailed by United States registered or certified mail, return receipt requested, postage prepaid, or if given by fax, electronically, or other means of written communication and confirmed by mail. Notices to the District and the Original Purchaser shall be addressed:

If to the District: Sweetwater Springs Water District
P.O. Box 48
Guerneville, CA 95446

If to the Original Purchaser: Capital One Public Funding, LLC
275 Broadhollow Road, 4th Floor
Melville, New York 11747

ARTICLE II
REPRESENTATIONS OF THE DISTRICT

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

(a) Due Organization and Existence. The District is a public agency duly organized and existing under and pursuant to the laws of the State.

(b) Authority. The District has full legal right, power and authority to issue the Bond and to carry out its obligations hereunder.

(c) Execution and Delivery. The District has duly authorized and executed this Agreement in accordance with the Constitution and laws of the State.

(d) No Breach or Default; No Liens or Encumbrances. Neither the execution and delivery of this Agreement, nor the fulfillment of or compliance with the terms and conditions hereof, nor the consummation of the transactions contemplated hereby, results in a breach of the terms, conditions or provisions of any restriction or any agreement or instrument to which the District is now a party or by which the District is bound, or constitutes a default under any of the foregoing, or results in the creation or imposition of any lien, charge or encumbrance whatsoever upon any of the property or assets of the District.

(e) Existing Pledges of Net Revenues. With the exception of the pledge of the Net Revenues securing the Installment Sale Agreement and the DWR Loans, the Net Revenues have not otherwise been pledged and there are no other liens against the Net Revenues.

(f) No Defaults. The District is not currently, and has not been at any time, in default under any of the Prior Bonds or the outstanding Senior Obligations.

(g) Financial Condition. The District's audited financial statements for the period ended June 30, 2012, presents fairly the financial condition of the District and the Water System as of the date hereof and the results of operation for the period covered thereby. Except as has been disclosed to the Original Purchaser, there has been no change in the financial condition of the District or the Water System since June 30, 2012, that will in the reasonable opinion of the District materially impair its ability to perform its obligations under this Agreement. All information provided by the District to the Original Purchaser with respect to the financial performance of the Water System is accurate in all material respects as of its respective date and does not omit any information necessary to make the information provided not misleading.

(h) Role of Capital One Public Funding, LLC. The District acknowledges that: (a) the Original Purchaser is acting solely as purchaser of the Bond for its own account and not as a fiduciary for the District or in the capacity of broker, dealer, municipal securities underwriter or municipal advisor; (b) the Original Purchaser

has not provided, and will not provide, financial, legal, tax, accounting or other advice to or on behalf of the District with respect to the issuance of the Bond; (c) the District will seek and obtain financial, legal, tax, accounting and other advice (including as it relates to structure, timing, terms and similar matters) with respect to the issuance of the Bond from its financial, legal, and other advisors (and not the Original Purchaser) to the extent that the District desires to obtain such advice.

(i) No Litigation. As of the date hereof, there is no action, suit, proceeding or investigation before or by any court, public board or body pending against the District or, to the best knowledge of the District, threatened, wherein an unfavorable decision, ruling or finding would: (i) affect the creation, organization, existence or powers of the District, or the titles of its members or officers, (ii) enjoin or restrain the issuance, sale or delivery of the Bond, the payment of debt service thereon from Net Revenues, or the levy of taxes for the payment of debt service thereon, (iii) in any way question or affect any of the rights, powers, duties or obligations of the District with respect to the Net Revenues or taxes to be used to pay debt service on the Bond, (iv) in any way question or affect any authority for the issuance of the Bond or the validity or enforceability of the Bond or this Agreement, or (v) otherwise adversely affect the transactions contemplated hereby.

(j) Consents. There is no consent, approval, authorization or other order of, or filing or registration with, or certification by, any regulatory authority having jurisdiction over the District required for the execution and delivery of this Agreement or the issuance, sale, and delivery of the Bond or the consummation by the District of the other transactions contemplated hereby that has not been obtained.

(k) Regulatory Compliance. As currently conducted, the District's activities with respect to the Water System are in all material respects in compliance with all applicable laws, administrative regulations of the State and of the United States and any agency or instrumentality of either, and any judgment or decree to which the District is subject.

ARTICLE III
THE BOND

Section 3.1 **Authorization and Title**. The District hereby authorizes the issuance of a refunding bond in the aggregate principal amount of $[7,982,000]. The title of the Bond shall be "Sweetwater Springs Water District (Sonoma County, California) Improvement District No. 1 2013 General Obligation Refunding Bond." At any time after the execution and delivery of this Agreement, the District may execute and deliver the Bond.

Section 3.2 **Terms and Form of Bond**. (A) Form and Registration. The Bond shall be issued in the form of a single, fully-registered installment bond in substantially the form

attached hereto as Exhibit A. The Bond shall be registered initially in the name of Capital One Public Funding, LLC, the Original Purchaser.

(B) Date; Interest Accrual; Interest Rates; Payments. The Bond shall be dated its date of delivery, shall bear interest from its date to September 1, 2033, at the rate of 3.60% per annum. The District shall pay installments of principal and interest on the Bond in the following amounts on the following dates:

Date	Principal	Interest	Total
September 1, 2013			
March 1, 2014			
September 1, 2014			
March 1, 2015			
September 1, 2015			
March 1, 2016			
September 1, 2016			
March 1, 2017			
September 1, 2017			
March 1, 2018			
September 1, 2018			
March 1, 2019			
September 1, 2019			
March 1, 2020			
September 1, 2020			
March 1, 2021			
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March 1, 2027			
September 1, 2027			
March 1, 2028			
September 1, 2028			
March 1, 2029			
September 1, 2029			
March 1, 2030			
September 1, 2030			
March 1, 2031			
September 1, 2031			
March 1, 2032			

Date	Principal	Interest	Total
September 1, 2032			
March 1, 2033			
September 1, 2033			

Interest on the Bond shall be calculated on the basis of a 360-day year comprising twelve 30-day months.

(C) Principal and Interest Payments. The District shall take all steps required by law and by the County to ensure that the principal and interest installments on the Bond are paid in lawful money of the United States of America on each payment date to the Owner thereof at the close of business on the Record Date.

(D) Provisions Applicable While Bond is Owned by Original Purchaser. Notwithstanding anything herein to the contrary, so long as the Bond is owned by the Original Purchaser, (i) the District shall pay principal of and interest on the Bond when due by wire transfer in immediately available funds to the Original Purchaser in accordance with such wire transfer instructions as shall be filed by the Original Purchaser with the District from time to time, (ii) payments of principal of the Bond shall be made without the requirement for presentation and surrender of the Bond by the Original Purchaser, provided that principal of the Bond that is payable at final maturity shall be made only upon presentation and surrender of the Bond at the office of the District, and (iii) the District shall not be required to give notice to the Original Purchaser of the installments of principal of and interest on the Bond under subsection (B) of this Section 3.2 (Terms and Form of Bond).

(E) Cessation of Interest Accrual. Interest on any portion of the principal of the Bond shall cease to accrue on the payment date of such portion, provided that there has been irrevocably deposited into a segregated account held by the District or an escrow agent or other fiduciary an amount sufficient to pay such principal, plus interest accrued thereon to such date. The Owner shall not be entitled to any other payment. Upon payment of all the principal and interest installments on the Bond, the Bond shall no longer be outstanding and entitled to the benefits of this Agreement, except for the payment of the principal of and interest on such Bond from moneys held by the District or the escrow agent or other fiduciary for such payment.

(F) Unclaimed Monies. Any money held by the District or its escrow agent or other fiduciary for the payment of the principal of or interest on the Bond and remaining unclaimed for two (2) years after all of the principal of the Bond has become due and payable shall be transferred to the water enterprise fund of the District.

Section 3.3 **Execution of Bond**. The Bond shall be signed by the manual or facsimile signature of the President or any member of the Board and the Secretary of the Board or his or her designee, provided that at least one such signature shall be manual.

In case any of the officers who shall have signed or countersigned the Bond shall cease to be such officer or officers of the District before the Bond so signed or countersigned shall have been delivered by the District, the Bond may nevertheless be delivered and, upon such delivery, shall be as binding upon the District as though those who signed and countersigned the same had

continued to be such officers of the District. The Bond may be signed and countersigned on behalf of the District by such persons as at the actual date of execution of the Bond shall be the proper officers of the District although at the nominal date of the Bond any such person shall not have been such officer of the District.

Section 3.4 **Transfer of Bond**. The Bond may, in accordance with its terms, be transferred upon the books required to be kept pursuant to the provisions of Section 2.5 (Bond Register) hereof by the person in whose name it is registered, in person or by the duly authorized attorney of such person, upon surrender of the Bond to the District for cancellation, accompanied by delivery of a duly executed written instrument of transfer in a form approved by the District.

Whenever the Bond shall be surrendered for transfer, the designated District officials shall execute (as provided in Section 3.3 (Execution of Bond) hereof) and deliver a new Bond. The District shall require the payment by the Owner requesting any such transfer of any tax or other governmental charge required to be paid with respect to such transfer.

No transfer of the Bond shall be required to be made by the District during the period from the close of business on the Record Date next preceding any Interest Payment Date to and including such Interest Payment Date.

Section 3.5 **Bond Register**. The District will keep or cause to be kept a record of the registration and transfer of the Bond. Upon presentation for such purpose, the District shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on the record, the Bond as hereinbefore provided.

Section 3.6 **Validity of Bond**. The recital contained in the Bond that it is regularly issued pursuant to the Law shall be conclusive evidence of its validity and of compliance with the provisions of the Law in its issuance.

Section 3.7 **Application of Proceeds of the Bond**. The District shall pay (or cause to be paid) $_____ of the purchase price of the Bond to the United States of America, acting through the Department of Agriculture, Rural Utilities Service, for the retirement of the Refunded Prior Bonds and cause to be paid costs of issuance of the Bond in the amount of $_____

ARTICLE IV
REDEMPTION OF THE BOND

Section 4.1. **Extraordinary Redemption**. The Bond shall be subject to redemption, in whole on any date or in part (by ratably reducing the remaining scheduled principal installments) on any Interest Payment Date, from the Net Proceeds of insurance or condemnation with respect to the Water System under the circumstances and upon the conditions and terms prescribed herein, at a redemption price equal to the principal amount of the Bond to be redeemed, together with accrued interest to the date fixed for redemption, without premium.

Section 4.2. **Optional Redemption**. Optional Redemption. The Bond is subject to redemption prior its maturity, at the option of the District, from any source of available funds, as a whole on any date or in part on any September 1 (in a minimum amount of $100,000), on or

after September 1, 2021, at the following redemption prices (computed upon the principal amount of the Bond to be redeemed), plus accrued interest to the date fixed for redemption:

Redemption Period (Both Dates Inclusive)	Redemption Price
September 1, 2021, through August 31, 2023	102%
September 1, 2023, and thereafter	100

If the Bond is optionally redeemed in part, the amount of the principal to be redeemed shall be applied to reduce the scheduled principal installments in inverse order of their payment dates. Upon a partial redemption, the Owner shall surrender the Bond to the District for exchange, and the District shall execute and deliver to the Owner a replacement Bond in the amount of the unpaid principal thereof and incorporating the revised installment payment schedule.

Section 4.3. **Notice of Redemption**. (A) Mailed Notice. Notice of redemption of the Bond shall be given by the District. Notice of redemption shall be mailed postage prepaid, not less than thirty (30) nor more than sixty (60) days prior to the redemption date by first class mail to the Owner at the address appearing on the bond register described in Section 2.5 (Bond Register).

(B) Content of Notice. Each notice of redemption shall contain all of the following information:

(i) the date of the notice;
(ii) the name and date of issue of the Bond;
(iii) the redemption date;
(iv) the Redemption Price;
(v) in the case of a partial redemption, the revised installment payment schedule;
(vi) a statement that the Bond must be surrendered to the District's offices; and
(vii) notice that interest will not accrue on any principal redeemed after the designated redemption date.

(C) Defects in Notice or Procedure. Failure of the Owner to receive notice or any defect in any such notice shall not affect the sufficiency of the proceedings for redemption.

Section 4.4. **Right to Rescind Notice**. The District may rescind any optional redemption and notice thereof for any reason on any date prior to the date fixed for redemption by causing written notice of the rescission to be given to the Owner. Any optional redemption and notice thereof shall be rescinded if for any reason on the date fixed for redemption monies are not available to the District or otherwise held in trust for such purpose in an amount sufficient to pay in full on said date the principal of, interest, and any premium due on the Bond called for redemption. Notice of rescission of redemption shall be given in the same manner in which notice of redemption was originally given. The actual receipt by the Owner of notice of such rescission shall not be a condition precedent to rescission, and failure to receive such notice or any defect in such notice shall not affect the validity of the rescission.

Section 4.5. **Deposit of Redemption Price**. Prior to any redemption date, the District shall deposit into a segregated account held by it or in escrow with a bank or trust company, as appropriate, an amount of money sufficient to pay the Redemption Price due on that date. Such money shall be applied solely for the payment of the Redemption Price upon presentation and surrender of the Bond.

Section 4.6. **Bond Payable on Redemption Date**. When notice of redemption has been duly given and moneys for payment of the Redemption Price is held by the District or in escrow with a bank or trust company for that purpose, on the redemption date designated in the notice (i) the principal to be redeemed shall become due and payable at the Redemption Price specified in the notice, (ii) interest on such principal shall cease to accrue, (iii) if the Bond is redeemed in whole, it shall cease to be entitled to any benefit or security under this Agreement, and (iv) the Owner shall have no rights in respect of the redeemed principal except to receive payment of the Redemption Price. Upon surrender of the Bond for redemption in whole, the District or escrow holder, as the case may be, shall pay the Owner the Redemption Price and cancel the surrendered Bond.

ARTICLE V
SECURITY FOR THE BOND

Section 5.1 **Levy of Taxes for Payment of Bond**. The Bond is a general obligation of the District and is payable from any available funds of the District, including the Net Revenues. If the Net Revenues are ever insufficient to pay the principal and interest installments on the Bond as and when the same become due, the District shall take all steps required by law and by the County to ensure that the Board of Supervisors annually thereafter levies property taxes sufficient to make those payments when due.

Section 5.2 **Operation and Maintenance of the Water System**. The District will maintain and preserve the Water System in good repair and working order at all times and will operate the Water System in an efficient and economical manner and will pay all Operation and Maintenance Expenses as they become due and payable.

Section 5.3 **Collection of Rates and Charges**. (a) The District hereby covenants that it shall fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Water System during each Fiscal Year that are at least sufficient, after making allowances for contingencies and error in the estimates, to yield Gross Revenues sufficient to pay the following amounts:

(i) All Operation and Maintenance Expenses estimated by the District to become due and payable in such Fiscal Year;

(ii) All payments of Debt Service on the Bond, the Unrefunded Prior Bonds, and any Senior Obligations as they become due and payable during such Fiscal Year;

(iii) Amounts necessary to bring the amount of funds in any reserve fund established with respect to the Senior Obligations up to the required amount; and

(iv) All payments required to meet any other obligations of the District that are charges, liens, encumbrances upon, or that are otherwise payable from, the Gross Revenues or the Net Revenues during such Fiscal Year.

In addition, the District shall fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Water System during each Fiscal Year that are sufficient to yield Net Revenues that are at least equal to 125% of Debt Service on the Bond, the Unrefunded Prior Bonds, and all outstanding Senior Obligations for such Fiscal Year.

(b) If, in any Fiscal Year, the rates, fees, and charges for the services and facilities of the Water System, after allowances for contingencies and error in the estimates, shall produce Gross Revenues insufficient to meet the covenant set forth in paragraph (a) of this Section, the District covenants and agrees to employ an independent consultant to make recommendations as to a revision of the rates, fees and charges of the Water System or the methods of operation of the Water System that will result in producing Net Revenues in the amount specified in paragraph (a) of this Section. Copies of the recommendations of such consultant shall be filed with the Owner.

The District covenants and agrees that it shall, promptly upon its receipt of such recommendations from such consultant, subject to applicable requirements or restrictions imposed by law, and subject to a good faith determination of the Board that such recommendations, in whole or in part, are in the best interests of the District, revise its rates, fees and charges or its methods of operation or collections and shall take such other action as shall be in conformity with such recommendations. If the District fails to comply with such recommendations, subject to the applicable requirements or restrictions imposed by law and to the determination of the Board that such recommendations are in the best interests of the District, the Owner may, in addition to the rights and remedies elsewhere set forth herein, institute and prosecute an action or proceeding in a court of competent jurisdiction to compel the District to comply with the recommendations. If the District complies in all material respects with the reasonable recommendations of the consultant in respect to said rates, fees, charges and methods of operation or collection, the District will be deemed to have complied with the covenants contained in this Section notwithstanding that Net Revenues shall be less than the amount required under this Section for such Fiscal Year; provided, however, that such rates, fees, charges and methods of operation or collection shall produce Net Revenues equal to at least 100% of Debt Service on the Bond, the Unrefunded Prior Bonds, and all Senior Obligations coming due and payable during such Fiscal Year; provided further that this sentence shall not be construed as in any way excusing the District from taking any action or performing any duty required under this Agreement or be construed as constituting a waiver of any other Event of Default.

Section 5.4 **Against Competitive Facilities**. Except for any utility system existing as of the date hereof, the District will not, to the extent permitted by law, acquire, maintain or operate and will not, to the extent permitted by law and within the scope of its powers, permit any other public or private agency, authority, district, or political subdivision or any person whomsoever to acquire, maintain or operate within the District any utility system competitive with the Water System; provided, however, that the District may assign all or a portion of the Water System to another entity upon delivery to the Owner of an opinion of bond counsel that

such assignment will not adversely affect the tax-exempt status of the Bond, and provided such entity assumes the obligations of the District hereunder.

Section 5.5 **Against Sale or Other Disposition of Property**. Except in the ordinary course of business, the District will not sell, lease, encumber or otherwise dispose of the Water System or any part thereof; provided however, any real or personal property that has become nonoperative or that is not needed for the efficient and proper operation of the Water System, or any material or equipment that has become worn out, may be sold or exchanged at not less than the fair market value thereof. If the proceeds of such sale or exchange are less than $25,000 in a Fiscal Year, the District may apply them to any legal purpose. If the proceeds of such sale or exchange are greater than $25,000 in a Fiscal Year, the District shall either (a) use them for the acquisition or construction of improvements, extensions or replacements of facilities constituting part of the Water System, or (b) to the extent not so used, use them to pay or redeem the Bond or any Senior Obligation.

The District will not enter into any agreement or lease that would materially impair the rights of the Owners or the operation of the Water System.

Section 5.6 **Against Encumbrances**. The District will not make any pledge of or place any charge or lien upon the Net Revenues except as provided herein and will not issue any bonds, notes, or other debt obligations payable from the Net Revenues except Senior Obligations.

Section 5.7 **Limitation on Additional Senior Obligations**. The District covenants that the District shall not issue or incur any Senior Obligations unless:

(a) The District is not in default under the terms of this Agreement; and

(b) Net Revenues (excluding connection charges), calculated on sound accounting principles, for the latest Fiscal Year or any more recent twelve (12) month period selected by the District ending not more than sixty (60) days prior to the adoption of the resolution authorizing the issuance or execution of such Senior Obligations, as shown by the books of the District, shall have amounted to at least 1.25 times Maximum Annual Debt Service on the Bond, the Unrefunded Prior Bonds, all outstanding Senior Obligations, and the Senior Obligations to be issued or executed; provided that, in calculating debt service coverage for this purpose, the District may add either or both of the following items to such Net Revenues:

(i) an allowance for Net Revenues from any additions to or improvements or extensions of the Water System to be constructed or acquired with the proceeds of such additional Senior Obligations, and also for Net Revenues from any such additions, improvements or extensions that have been constructed or acquired from moneys from any source but that, during all or any part of such Fiscal Year or 12-month period, were not in service, all in an amount equal to the estimated additional annual Net Revenues to be derived from such additions, improvements and extensions during the first full Fiscal Year following the completion thereof, all as shown by a certificate of the District;

(ii) an allowance for earnings arising from any increase in the charges made for service from the Water System that has become effective prior to the incurring of

such additional Senior Obligations but that, during all or any part of such Fiscal Year or 12-month period, was not in effect, in an amount equal to 100% of the amount by which the Net Revenues would have been increased if such increase in charges had been in effect during the whole of such Fiscal Year or 12-month period, as shown by a certificate of the District.

Notwithstanding the foregoing, the District may issue or execute additional Senior Obligations to discharge or defease other Senior Obligations then unpaid and outstanding if, upon such issuance or execution, Debt Service on the refunding Senior Obligations for each future Fiscal Year following such discharge or defeasance shall be less than or equal to the Debt Service for that Fiscal Year on the refunded Senior Obligations if such discharge or defeasance did not occur, all as shown by a certificate of the District.

ARTICLE VI
COVENANTS OF THE DISTRICT

Section 6.1. Punctual Payment and Performance. The District will punctually pay the principal of and interest on the Bond, in strict conformity with the terms of the Bond and hereof, and will faithfully observe and perform all the agreements, conditions, covenants, and terms contained herein required to be observed and performed by it.

Section 6.2 Compliance with Law; Preservation of Rights. The District will faithfully comply with, keep, observe, and perform all valid and lawful obligations or regulations now or hereafter imposed on it with respect to the Water System by contract, or prescribed by any law of the United States of America or of the State, or by any officer, board, or commission having jurisdiction or control, as a condition of the continued enjoyment of each and every franchise, right, or privilege now owned or hereafter acquired by the District with respect to the Water System, including its right to exist and carry on its business, to the end that such franchises, rights, and privileges shall be maintained and preserved and shall not become abandoned, forfeited, or in any manner impaired.

Section 6.3 Compliance with Contracts. The District will comply with, keep, observe and perform all agreements, conditions, covenants and terms, expressed or implied, required to be performed by it contained in all contracts for the use of the Water System and all other contracts affecting or involving the Water System to the extent that the District is a party thereto.

Section 6.4 Prosecution and Defense of Suits. The District shall promptly, upon request of the Owner, take such action as may be necessary or proper to remedy or cure any defect in or cloud upon the title to the Water System, whether now existing or hereafter developing and shall, to the extent permitted by law, prosecute all such suits, actions and other proceedings as may be appropriate for such purpose and shall indemnify and save the Owner harmless from all loss, cost, damage and expense, including attorneys' fees, that it may incur by reason of any such defect, cloud, suit, action or proceeding.

Section 6.5 Payment of Claims. The District will pay and discharge any and all lawful claims for labor, materials or supplies that, if unpaid, might become a lien on the Net

Revenues or any part thereof or on any funds in the control of the District or that might impair the security of the Bond; provided that the District shall not be obligated to make such payment so long as the District contests such payment in good faith.

Section 6.6 **Payment of Taxes; Compliance with Regulations**. The District will pay and discharge all taxes, assessment, and other governmental charges, if any, that may hereafter be lawfully imposed upon the Water System or any part thereof or upon the Net Revenues when the same shall become due. The District will duly observe and conform with all valid regulations and requirements of any governmental authority relative to the operation of the Water System or any part thereof, but the District shall not be required to make such payments, or to comply with any regulations or requirements, so long as the payment or validity or application thereof shall be contested in good faith.

Section 6.7 **Insurance; Application of Net Proceeds**.

(a) Casualty Insurance. The District will procure and maintain or cause to be procured and maintained insurance on the Water System with responsible insurers in such amounts and against such risks (including accident to or destruction of the Water System) as are usually covered in connection with water systems similar to the Water System so long as such insurance is available from reputable insurance companies. In the event of any damage to or destruction of the Water System caused by the perils covered by such insurance, the Net Proceeds thereof shall be applied to the reconstruction, repair, or replacement of the damaged or destroyed portion of the Water System. The District shall begin such reconstruction, repair, or replacement promptly after such damage or destruction shall occur; shall continue and properly complete such reconstruction, repair, or replacement as expeditiously as possible; and shall pay out of such Net Proceeds all costs and expenses in connection with such reconstruction, repair, or replacement so that the same shall be completed and the Water System shall be free and clear of all claims and liens. If such Net Proceeds exceed the costs of such reconstruction, repair, or replacement, then the excess Net Proceeds may be applied to the redemption of the Bond or any Senior Obligation. If such Net Proceeds are sufficient to enable the District to defease or retire the Senior Obligations and the Bond, the District may elect not to reconstruct, repair, or replace the damaged or destroyed portion of the Water System, and thereupon such Net Proceeds shall be applied to such defeasance or retirement.

(b) Other Insurance. The District will procure and maintain such other insurance that it deems advisable or necessary to protect its interests and the interests of the Owner, which insurance shall afford protection in such amounts and against such risks as are usually covered in connection with Water systems similar to the Water System.

(c) Self-Insurance. Any insurance required to be maintained pursuant to paragraph (a) above and any insurance maintained pursuant to paragraph (b) above may be maintained under a self-insurance or pooled risk program so long as such self-insurance or pooled risk program is maintained in the amounts and manner usually maintained in connection with Water systems similar to the Water System.

(d) Notice of Cancellation. All policies of insurance required to be maintained herein shall provide that the Owner shall be given thirty (30) days' written notice of any intended cancellation thereof or reduction of coverage provided thereby.

Section 6.8. Eminent Domain Proceeds. If all or any part of the Water System shall be taken by eminent domain proceedings, the Net Proceeds thereof shall be applied as follows:

(a) If (1) the District obtains and files with the Owner an Engineer's Report or Accountant's Report showing (i) the estimated loss of annual Net Revenues, if any, suffered or to be suffered by the District by reason of such eminent domain proceedings, (ii) a general description of the additions, betterments, extensions, or improvements to the Water System proposed to be acquired and constructed by the District from such Net Proceeds, and (iii) an estimate of the additional annual Net Revenues to be derived from such additions, betterments, extensions, or improvements, and (2) the District, on the basis of such Engineer's Report or Accountant's Report filed with the Owner, determines that the estimated additional annual Net Revenues will sufficiently offset the estimated loss of annual Net Revenues resulting from such eminent domain proceedings so that the ability of the District to meet its obligations hereunder will not be substantially impaired (which determination shall be final and conclusive) then the District shall promptly proceed with the acquisition and construction of such additions, betterments, extensions, or improvements substantially in accordance with such Engineer's Report or Accountant's Report and such Net Proceeds shall be applied for the payment of the costs of such acquisition and construction, and any balance of such Net Proceeds not required for such purpose may be applied by the District to any lawful purpose.

(b) If (1) the District obtains and files with the Owner an Engineer's Report or Accountant's Report containing an estimate of annual Net Revenues after the taking by eminent domain and (2) the District, on the basis of such Engineer's Report or Accountant's Report, determines that Net Revenues will equal at least one hundred twenty-five per cent (125%) of Debt Service on the Bonds, the Unrefunded Prior Bonds, and all Senior Obligations for each Fiscal Year in which the Bond is outstanding, then the District may use such Net Proceeds for any lawful purpose.

(c) If the conditions of neither of the foregoing subsections are met, then such Net Proceeds shall be applied in part to the prepayment or redemption of the Senior Obligations and the Bond.

Section 6.9 Financial Information. During the term of this Agreement, the District shall, at the request of the Owner, furnish or cause to be furnished to the Owner, at the District's expense, (i) the audited financial statements of the District within six (6) months of the end of the Fiscal Year, or as soon as practicable thereafter, and (ii) such other information regarding the operations, financial condition, and property of the District and the Water System as the Owner may reasonably request as soon as available. Any audited financial statements furnished to the Owner shall be prepared in accordance with Generally Accepted Accounting Principles, consistently applied, and shall fairly present the District's financial condition as of the date of the statements.

Section 6.10 **Tax Covenant**. The District shall at all times do and perform all acts and things permitted by law and this Agreement that are necessary and desirable in order to assure that interest paid on the Bond will be excludable from gross income for federal income tax purposes and shall take no action that would result in such interest not being so excludable. Without limiting the generality of the foregoing, the District agrees to comply with the provisions of the Tax Certificate. This covenant shall survive the payment in full of the Bond.

Section 6.11 **Further Assurances**. The District will promptly execute and deliver or cause to be executed and delivered all such other and further instruments, documents or assurances, and promptly do or cause to be done all such other and further things, as may be necessary or reasonably required in order to further and more fully vest in the Owner all rights, interest, powers, benefits, privileges and advantages conferred or intended to be conferred upon them by this Agreement.

ARTICLE VII
EVENTS OF DEFAULT AND REMEDIES OF OWNER

Section 7.1 **Events of Default**. The following events shall be Events of Default:

(A) Payment Default. Default in the due and punctual payment of any installment of the principal of or interest on the Bond when and as the same shall become due and payable;

(B) Breach of Covenant. Failure by the District to observe or perform any covenant, condition, agreement or provision in this Agreement on its part to be observed or performed, other than as referred to in subsection (A) of this Section, for a period of sixty (60) days after written notice, specifying such failure and requesting that it be remedied, has been given to the District; except that, if such failure can be remedied but not within such sixty-day period and if the District has taken all action reasonably possible to remedy such failure within such sixty-day period, such failure shall not become an Event of Default for so long as the District shall diligently proceed to remedy same;

(C) Bankruptcy. The District shall file a petition seeking arrangement or reorganization under 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 the consent of the District 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 District or of the whole or any substantial part of its property; and

(D Senior Obligation Default. An event of default shall have occurred with respect to any Senior Obligations.

Section 7.2 **Acceleration of Debt Service**. If an Event of Default shall occur, then, and in each and every such case during the continuance of such Event of Default, the Owner may, by notice in writing to the District, declare the unpaid principal of the Bond and the interest accrued thereon to be due and payable immediately, and upon any such declaration the same

shall become due and payable, anything contained herein or in the Bond to the contrary notwithstanding.

This provision, however, is subject to the condition that if, at any time after the principal of the Bond shall have been so declared due and payable and before any judgment or decree for the payment of the money due shall have been obtained or entered, the District shall pay the Owner all matured interest on the Bond and all principal of the Bond due prior to such declaration, with interest at the rate borne by the Bond on such overdue interest and principal, and the reasonable fees and expenses of the Owner, including without limitation fees and expenses of its attorneys and agents, and any and all other defaults known to the Owner (other than in the payment of interest on and principal of the Bond due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Owner or provision deemed by the Owner to be adequate shall have been made therefor, then and in every such case the Owner, by written notice to the District, shall 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 7.3 Other Remedies of Owner. Upon the occurrence and continuance of an Event of Default, the Owner shall have the right

(A) by mandamus or other action, suit, or proceeding at law or in equity to enforce the Owner's rights against the Board or the District or any of the officers or employees of the District, and to compel the Board or the District or any such officers or employees to perform and carry out their duties under the Law and the agreements and covenants with the Owner contained herein;

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

(C) by suit in equity upon the nonpayment of the Bond to require the Board or the District or its officers and employees to account as the trustee of an express trust.

Section 7.4 Restoration of Positions. In case any proceedings taken by the Owner on account of any Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Owner, then in every such case the District and the Owner, subject to any determination in such proceedings, shall be restored to their former positions and rights hereunder, severally and respectively, and all rights, remedies, powers, and duties of the District and the Owner shall continue as though no such proceedings had been taken.

Section 7.5 Rights and Remedies Cumulative. No right or remedy herein conferred upon or reserved to the Owner of the Bond is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right or remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

Section 7.6 **Delay or Omission Not Waiver**. No delay or omission of any Owner of the Bond to exercise any right or remedy accruing upon an Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or an acquiescence therein. Every right and remedy given by this Agreement or by law to the Owner of the Bond may be exercised from time to time, and as often as may be deemed expedient, by the Owner.

ARTICLE VIII
AMENDMENTS; DISCHARGE OF AGREEMENT

Section 8.1 **Amendments Permitted**. (A) This Agreement and the rights and obligations of the District and of the Owner may be modified or amended at any time by a supplemental agreement but only with the written consent of the Owner.

(B) From and after the time any supplemental agreement becomes effective pursuant to this Article, this Agreement shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties, and obligations under this Agreement of the District and the Owner shall thereafter be determined, exercised, and enforced hereunder subject in all respects to such modification and amendments, and all the terms and conditions of any such supplemental agreement shall be deemed to be part of the terms and conditions of this Agreement for any and all purposes.

Section 8.2 **Discharge of Agreement**. (a) If the District shall pay or cause to be paid or there shall otherwise be paid to the Owner the principal of and the interest and the redemption premium, if any, on the Bond at the times and in the manner stipulated therein and herein, then all agreements, covenants and other obligations of the District to the Owner hereunder shall thereupon cease, terminate and become void and be discharged and satisfied.

(b) The Bond shall be deemed to have been paid within the meaning and with the effect expressed in subsection (a) of this section if (1) in case the Bond is to be redeemed on any date prior to its final principal payment, the District shall have mailed a notice of redemption to the Owner, (2) there shall have been deposited with an escrow agent either money in an amount that shall be sufficient or Defeasance Securities that are not subject to redemption except by the holder thereof prior to maturity, the interest on and principal of which when paid will provide money that, together with the money, if any, deposited with such escrow agent at the same time, shall be sufficient to pay when due the interest to become due on the Bond on and prior to the final principal payment date or redemption date thereof, as the case may be, and the principal of and redemption premiums, if any, on the Bond on and prior to the final principal payment date or the redemption date thereof, as the case may be, and (3) if the Bond is not subject to redemption within the next succeeding sixty (60) days, the District shall have mailed a notice to the Owner that the deposit required by clause (2) above has been made with such escrow agent and that the Bond is deemed to have been paid in accordance with this section and stating the principal payment dates or redemption date, as the case may be, upon which money is to be available for the payment of the principal of and redemption premiums, if any, on the Bond.

IN WITNESS WHEREOF, the District has caused this Agreement to be duly executed by its officers duly authorized as of the date first written above.

SWEETWATER SPRINGS WATER DISTRICT

By: _____
_____, President of the Board

ATTEST:

By: _____
_____, Secretary of the Board

EXHIBIT A
FORM OF BOND

REGISTERED NO. R-1

SWEETWATER SPRINGS WATER DISTRICT
(Sonoma County, California)
Improvement District No. 1
2013 General Obligation Refunding Bond

This Bond has been designated as a "qualified tax-exempt obligation" within the meaning of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended.

Original Principal Amount	Original Issue Date
$[7,982,000]	August 13, 2013

Sweetwater Springs County Water District, a county water district duly organized and existing under and pursuant to the Constitution and laws of the State of California (the "District"), for value received, hereby acknowledges itself indebted to and promises to pay to CAPITAL ONE PUBLIC FUNDING, LLC, or registered assigns, the installments of principal and interest in the amounts and on the dates stated below:

Date	Principal	Interest	Total
September 1, 2013			
March 1, 2014			
September 1, 2014			
March 1, 2015			
September 1, 2015			
March 1, 2016			
September 1, 2016			
March 1, 2017			
September 1, 2017			
March 1, 2018			
September 1, 2018			
March 1, 2019			
September 1, 2019			
March 1, 2020			
September 1, 2020			
March 1, 2021			
September 1, 2021			
March 1, 2022			
September 1, 2022			
March 1, 2023			
September 1, 2023			
March 1, 2024			
September 1, 2024			
March 1, 2025			
September 1, 2025			
March 1, 2026			
September 1, 2026			
March 1, 2027			

Date	Principal	Interest	Total
September 1, 2027			
March 1, 2028			
September 1, 2028			
March 1, 2029			
September 1, 2029			
March 1, 2030			
September 1, 2030			
March 1, 2031			
September 1, 2031			
March 1, 2032			
September 1, 2032			
March 1, 2033			
September 1, 2033			

Interest on the unpaid principal amount of this Bond is calculated from the original issue date stated above at the rate of 3.60% per annum, on the basis of a 360-day year comprising twelve 30-day months. The principal and interest installments on this Bond shall be payable in lawful money of the United States of America by wire transfer on each payment date to the registered owner hereof (in accordance with the terms of the Bond Issuance Agreement described below).

This Bond is the single bond of the issue authorized by the District and designated "Sweetwater Springs Water District (Sonoma County, California) Improvement District No. 1 2013 General Obligation Refunding Bond" in the original principal amount stated above. This Bond is issued pursuant to a Bond Issuance Agreement dated August 1, 2013, made by the District (the "Agreement"), and in conformity with the Constitution and laws of California, including the statutory authority of Articles 9 and 11 of Chapter 13 of Part 1 of Division 2 of Title 5 of the California Government Code (the "Law").

Reference is hereby made to the Agreement and to the Law for a description of the terms on which the Bond is issued and to be issued and the rights of the registered owner of the Bond. All the terms of the Agreement and the Law are hereby incorporated herein and constitute a contract between the District and the registered owner from time to time of this Bond. The registered owner of this Bond, by its acceptance hereof, consents and agrees to all the provisions of the Agreement.

This Bond is subject to redemption by the District as a whole on any date or in part (by ratably reducing the remaining scheduled principal installments) on any Interest Payment Date, from funds received by the District due to a casualty loss or governmental taking of the Water System or portions thereof by eminent domain proceedings, under the circumstances and upon the conditions and terms prescribed in the Agreement, at a redemption price equal to the sum of the principal amount thereof to be redeemed plus accrued interest thereon to the date fixed for redemption, without premium.

This Bond is also subject to redemption at the option of the District from any source of available funds, as a whole on any date or in part on any September 1 (in a minimum amount of $100,000), on or after September 1, 2021, at the following redemption prices (computed upon the principal amount of the Bond to be redeemed), plus accrued interest to the date fixed for redemption:

Redemption Period (Both Dates Inclusive)	Redemption Price
September 1, 2021, through August 31, 2013	102%
September 1, 2023, and thereafter	100

If this Bond is optionally redeemed in part, the amount of the principal to be redeemed shall be applied to reduce the scheduled principal installments in inverse order of their payment dates.

Notice of redemption of this Bond shall be given by first class mail not less than thirty (30) days nor more than sixty (60) days before the redemption date to the registered owner hereof, subject to and in accordance with provisions of the Agreement. If notice of redemption has been duly given as aforesaid and money for the payment of the above-described redemption price is held by the District or its escrow agent, then this Bond shall, on the redemption date designated in such notice, become due and payable at the above-described redemption price; and from and after the date so designated, interest on this Bond shall cease to accrue and the registered owner of this Bond shall have no rights with respect hereto except to receive payment of the redemption price hereof.

If an event of default, as defined in the Agreement, shall occur, the principal of the Bond may be declared due and payable upon the conditions, in the manner and with the effect provided in the Agreement, except that the Agreement provides that in certain events such declaration and its consequences shall be rescinded under the circumstances as provided therein.

This Bond is transferable by the registered owner hereof, in person or by its attorney duly authorized in writing, at the offices of the District, but only in the manner, subject to the limitations and upon payment of the charges provided in the Agreement, and upon surrender and cancellation of this Bond. Upon such transfer a new fully registered Bond for the same aggregate principal amount will be issued to the transferee in exchange herefor.

The District may deem and treat the registered owner hereof as the absolute owner hereof for all purposes, and the District shall not be affected by any notice to the contrary.

The rights and obligations of the District and of the registered owner of the Bond may be modified or amended at any time in the manner, to the extent, and upon terms provided in the Agreement, which provide, in certain circumstances, for modifications and amendments without the consent of or notice to the registered owner of Bond.

It is hereby certified and recited that any and all acts, conditions, and things required to exist, to happen, and to be performed, precedent to and in the incurring of the indebtedness evidenced by this Bond, and in the issuing of this Bond, do exist, have happened, and have been performed in due time, form and manner, as required by the Constitution and statutes of the State of California; that the total amount of indebtedness of the District, including the amount of this Bond, does not exceed any limit prescribed by the Constitution and the statutes of the State of California; and that this Bond is not in excess of the amount permitted to be issued under the Agreement.

IN WITNESS WHEREOF, the Board of Directors of the Sweetwater Springs Water District, has caused this Bond to be signed by its President, to be countersigned by the Secretary of the Board, all as of the date stated above.

By: _____

President of the Board of Directors

Countersigned:

_____

Secretary of the Board of Directors

ASSIGNMENT

For value received _____ hereby sell, assign and transfer unto _____ the within Bond and hereby irrevocably constitute and appoint _____ attorney, to transfer the same on the bond register of the District, with full power of substitution in the premises.

Dated: _____

_____

NOTE: The signature to this Assignment must correspond with the name on the face of the within Bond in every particular, without alteration or enlargement or any change whatsoever.

Signature Guaranteed by:

_____

NOTE: Signature must be guaranteed by an eligible guarantor institution (being banks, stock brokers, savings and loan associations, and credit unions with membership in and approved signature guarantee medallion programs) pursuant to Securities and Exchange Commission Rule 17A(d)15.

Social Security Number, Tax Identification Number,
or other identifying number of Assignee: _____

LEGAL OPINION

The following is a true copy of the opinion rendered by Kronick, Moskovitz, Tiedemann & Girard, a Professional Corporation, in connection with the issuance of, and dated as of the date of the original delivery of, the 2013 General Obligation Refunding Bond. A signed copy is on file in my office.

_____
Secretary of the Board

KRONICK, MOSKOVITZ, TIEDEMANN & GIRARD
A Professional Corporation
400 Capitol Mall, 27th floor
Sacramento, CA 95814-4417

Board of Directors
Sweetwater Springs Water District
P.O. Box 48
Guerneville, CA 95446

Re: Sweetwater Springs Water District (Sonoma County, California)
Improvement District No. 1 2013 General Obligation Refunding Bond

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the Sweetwater Springs Water District (the "District") of $[7,982,000] principal amount of Sweetwater Springs Water District (Sonoma County, California) Improvement District No. 1 2013 General Obligation Refunding Bond (the "Bond"). In such capacity, we have examined such law and such certified proceedings, certifications, and other documents as we have deemed necessary to render this opinion.

Regarding questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion that, under existing law:

1. The Bond has been duly authorized and executed by the District and is a valid and binding general obligation of the District, payable from any available funds of the District, including the revenues of the District's water system, although any tax for the payment of the Bond is limited to annual taxes to be levied upon and collected from property within Improvement District No. 1 of the District (the "Improvement District").

2. All taxable property in the territory of Improvement District No. 1 is subject to *ad valorem* taxation without limitation regarding rate or amount (except certain personal property that is taxable at limited rates) to pay the Bond. The County of Sonoma is required by law to include in its annual tax levy the principal and interest coming due on the Bond to the extent that necessary funds are not provided from other sources.

3. Interest on the Bond is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations. The opinion set forth in the preceding sentence is subject to the condition that the District comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bond in order that the interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The District has covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause interest on the Bond to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bond.

4. Interest on the Bond is exempt from State of California personal income taxation.

5. The Bond is eligible and the District has designated it as a "qualified tax-exempt obligation" pursuant to Section 265(b)(3) of the Internal Revenue Code of 1986, as amended.

The rights of the owner of the Bond and the enforceability thereof are limited by bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights generally, and by equitable principles, whether considered at law or in equity.

We express no opinion regarding tax consequences arising with respect to the Bond other than as expressly set forth herein.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,

KRONICK, MOSKOVITZ, TIEDEMANN & GIRARD,
A Professional Corporation

RESOLUTION NO. 13-18

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE SWEETWATER SPRINGS WATER DISTRICT AUTHORIZING THE ISSUANCE OF A REFUNDING BOND IN AN AMOUNT NOT TO EXCEED $9,000,000 AND THE EXECUTION AND DELIVERY OF A Bond ISSUANCE AGREEMENT AND AUTHORIZING CERTAIN RELATED MATTERS

WHEREAS, the Sweetwater Springs Water District (the "District") is duly organized and existing under the laws of the State of California and is authorized pursuant to Articles 9 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California (commencing with Section 53550) to issue refunding bonds for the purpose of refinancing the outstanding principal amount of its Improvement District No. 1 General Obligation Bonds of 1990, Series 1992 and Improvement District No. 1 General Obligation Bonds of 1990, Series 2003 (collectively, the "Prior Obligations"); and

WHEREAS, in order to provide funds to refinance a portion of the Prior Obligations, the District proposes to issue its Sweetwater Springs Water District (Sonoma County, California) Improvement District No. 1 2013 General Obligation Refunding Bond in the aggregate principal amount of not to exceed $9,000,000 (the "Bond"); and

WHEREAS, the Bond will be issued and secured pursuant to the terms of an Bond Issuance Agreement (the "Bond Issuance Agreement"); and

WHEREAS, the Board of Directors of the District (the "Board") previously adopted and passed a resolution on June 6, 2013 authorizing the issuance of refunding bonds to be sold to Brandis Tallman LLC, as underwriter, for offer and sale by the underwriter to the general public; and

WHEREAS, as a result of unprecedented market conditions adversely affecting the municipal bond market, this Board finds that refinancing a portion of the Prior Obligations with the proceeds of the Bond will result in substantially more savings and/or other financial benefits to the District than refinancing the Prior Obligations with bonds offered and sold to the general public; and

WHEREAS, this Board has determined to sell the Bond privately to Capital One Public Funding, LLC, as purchaser (the "Purchaser") with Brandis Tallman LLC serving as placement agent (the "Placement Agent"); and

WHEREAS, this Board has also been presented at this meeting with an option to refinance all of the outstanding principal amount of the Prior Obligations; and

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WHEREAS, the District has duly considered such transactions, including, without limitation and the Bond Issuance Agreement and wishes at this time to approve said transactions in the public interests of the District.

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

Section 1. Issuance of the Bond. The Board hereby approves the issuance of the Bond by the District in the aggregate principal amount of not to exceed $9,000,000 for the purposes hereinbefore described. The Bonds will have a true interest cost of not to exceed 4.00% and will have a maturity of 20 years. The remaining nine years of maturity of the Prior Obligations will not be refinanced.

Section 2. Bond Issuance Agreement. The Board hereby approves the Bond Issuance Agreement, in substantially the form filed with the Secretary of the Board. The President, Vice President and General Manager and/or their designees (the "Authorized Officers") are each hereby authorized and directed to execute, for and on behalf of the District, the Bond Issuance Agreement, in substantially the form filed with the Secretary of the Board, with such changes therein as any of the Authorized Officers shall approve, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 3. Bank Qualification. This Board, confirming that it has no present intention of providing for issuance of any further tax-exempt obligations of the District during calendar year 2013, believes that the reasonably anticipated amount of tax-exempt obligations which will be issued by the District in calendar year 2013 will not exceed $9,000,000, and the Bond is hereby designated as qualified tax-exempt obligations pursuant to Section 265(b)(3)(B) of the Code.

Section 4. Placement Agent Agreement. The Board hereby approves the Placement Agent Agreement, in substantially the form filed with the Secretary of the Board. The Authorized Officers are each hereby authorized and directed to execute, for and on behalf of the District, the Placement Agent Agreement, in substantially the form filed with the Secretary of the Board, with such changes therein as any of the Authorized Officers shall approve, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 5. Further Actions. The Authorized Officers are hereby authorized to take all actions and execute any and all documents described in this Resolution and otherwise necessary or desirable to effect the execution and delivery of the Bond Issuance Agreement and to make any changes to the forms of the legal documents including without limitation any changes to the dates and the percentages in the rate covenant and additional debt test contained in any documents approved at this meeting from the dates and percentages on the forms submitted to this meeting as necessary or desirable to comply with the terms of the Purchaser; and to do any and all things and to execute and deliver any and all documents which they may deem necessary or advisable in order to consummate the issuance of the Bond and otherwise to carry out, give effect to and comply with the terms and intent of this Resolution and the Bond

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Issuance Agreement. Such actions heretofore taken by such officers are hereby ratified, confirmed and approved. The Authorized Officers are further authorized to take all actions and execute any and all documents necessary or desirable to refund, defease, redeem and otherwise provide for the payment of the District's outstanding Prior Obligations which are to be refinanced in connection with the issuance of the Bond.

Section 6. Effective Date. This Resolution shall take effect from and after the date of its passage and adoption.

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 August 1, 2013, by the following vote.

Director	**Aye**	**No**
Sukey Robb-Wilder	_____	_____
Tim Lipinski	_____	_____
Richard Holmer	_____	_____
Gaylord Schaap	_____	_____
Victoria Wikle	_____	_____

_____
Richard Holmer
President of the Board of Directors

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

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