



**BOARD OF DIRECTORS  
SAN LORENZO VALLEY WATER DISTRICT  
AGENDA  
July 23, 2019**

**MISSION STATEMENT:** Our Mission is to provide our customers and future generations with reliable, safe and high quality water at an equitable price; to create and maintain outstanding service and community relations; to manage and protect the environmental health of the aquifers and watersheds; and to ensure the fiscal vitality of the San Lorenzo Valley Water District.

Notice is hereby given that a meeting of the Board of Directors of the San Lorenzo Valley Water District will be held on Tuesday, July 23, 2019 at 6:30 p.m., SLVWD, 13057 Highway 9, Boulder Creek, CA 95006.

*In compliance with the requirements of Title II of the American Disabilities Act of 1990, the San Lorenzo Valley Water District requests that any person in need of any type of special equipment, assistance or accommodation(s) in order to communicate at the District's Public Meeting can contact the District Secretary's Office at (831) 430-4636 a minimum of 72 hours prior to the scheduled meeting.*

*Agenda documents, including materials related to an item on this agenda submitted to the Board of Directors after distribution of the agenda packet, are available for public inspection and may be reviewed at the office of the District Secretary, 13060 Highway 9, Boulder Creek, CA 95006 during normal business hours. Such documents are also available on the District website at [www.slvwd.com](http://www.slvwd.com) subject to staff's ability to post the documents before the meeting.*

1. Convene Meeting/Roll Call

2. Additions and Deletions to Agenda:

*Additions to the Agenda, if any, may only be made in accordance with California Government Code Section 54954.2 (Ralph M. Brown Act) which includes, but is not limited to, additions for which the need to take action is declared to have arisen after the agenda was posted, as determined by a two-thirds vote of the Board of Directors (or if less than two-thirds of the members are present, a unanimous vote of those members present).*

3. Oral Communications:

*This portion of the agenda is reserved for Oral Communications by the public for items which are not on the agenda. Please understand that California law (The Brown Act) limits what the Board can do regarding issues raised during Oral Communication. No action or discussion may occur on issues outside of those already listed on today's agenda.*

*Any person may address the Board of Directors at this time, on any subject that lies within the jurisdiction of the District. Normally, communication must not exceed three (3) minutes in length, and individuals may only speak once during Oral Communications.*

*If you wish to speak on a non-agendized item, please submit a 'speaker slip' to the District Secretary. It is not required, but individuals who have submitted a 'speaker slip' will be given priority. Time for Oral Communications at the start of the meeting will be limited to 15 minutes in total. If there are additional speakers, the Board will continue Oral Communications after the Consent Agenda.*

*Any Director may request that a matter raised during Oral Communication be placed on a future agenda.*

4. New Business:

*Members of the public will be given the opportunity to address each scheduled item prior to Board deliberations. The Chairperson of the Board may establish a time limit for members of the public to address the Board on agenda items.*

- a. BOARD MEMBER RESIGNATION  
Discussion and possible action by the Board regarding a recent Board member resignation and the process for filling the vacancy.
- b. AUTHORIZATION FOR THE EXECUTION AND DELIVERY OF DOCUMENTS RELATING TO THE SALE OF CERTIFICATES OF PARTICIPATION  
Discussion and possible action by the Board regarding Resolution No. 3 (19-20) to permit the sale of the Certificates of Participation and certain actions in connection therewith, including appointment of special counsel.

5. Adjournment

**Certification of Posting**

I hereby certify that on July 19, 2019 I posted a copy of the foregoing agenda in the outside display case at the District Office, 13060 Highway 9, Boulder Creek, California, said time being at least 72 hours in advance of the meeting of the Board of Directors of the San Lorenzo Valley Water District (Government Code Section 54954.2).

Executed at Boulder Creek, California on July 19, 2019.

\_\_\_\_\_  
Holly B. Hossack  
District Secretary

## MEMO

To: Board of Directors

From: District Manager

Subject: VACANCY IN AN ELECTIVE OFFICE OF THE BOARD OF DIRECTORS  
SAN LORENZO VALLEY WATER DISTRICT

Date: July 23, 2019

### RECOMMENDATION:

It is recommended that the Board of Directors review this memorandum and by motion of the Board, (a) find that an elective office (Board seat) has become vacant as of July 18, 2019; and (b) proceed with filling the vacancy in accordance with applicable provisions of the California Government Code Sections 1770-1782. Section 1780 empowers the Board to either:

- 1) appoint a person within 60 days to fill the vacancy for the balance of unexpired term, or
- 2) call for an election to be held on the next established election date.

Staff recommends filling the vacancy by an appointment of the Board, in which case the motion should direct staff to proceed with posting the notice of vacancy and establish August 8, 5:00 p.m. as the closing date for the receipt of applications.

### BACKGROUND:

By correspondence dated July 17, 2019, Bill Smallman tendered his resignation from the San Lorenzo Valley Water District Board of Directors, effective immediately as of that date. (See Attachment 1.) Mr. Smallman served on the Board of the Lompico County Water District before he was elected to the District's Board in 2016.

Pursuant to California Government Code Section 1780, in the event of a vacancy in any elective office of a governing board of a special district, the remaining board members may fill the vacancy by appointment within sixty (60) days from the effective date of the vacancy, or when they were notified of the vacancy, whichever is later. (See Attachment 2.) The Board was notified of the vacancy at the regular Board meeting conducted on July 18, 2019. Therefore, the Board must make an appointment to fill the vacancy, if at all, by September 16, 2019.

Pursuant to subdivision (d)(1) of Section 1780, notice of the vacancy must be posted in three or more conspicuous places in the District at least fifteen (15) days prior to the appointment. The District's Board Policy Manual requires establishing a closing date for the receipt of applications for the vacancy, and provides that interviews shall be conducted at the next regular Board meeting following the date of closure of applications. The Board Policy Manual further instructs that the appointment shall be made "without undue delay." (See Attachment 3.)

In the alternative, Government Code Section 1780 allows the Board to call for an election to be held on the next established election date, which the County has scheduled for November 5, 2019. August 9 is the deadline to call for a special district election for inclusion on the November ballot. This alternative would result in election costs incurred by the District and a prolonged vacancy until after the November 2019 election results are certified. A prolonged vacancy would create governance challenges such as potential difficulty achieving quorum, and thereby impact the ability of the District to carry on District business.

Staff recommends that the Board fill the vacancy as soon as practicable by making an appointment and establish August 8 as the closing date for the receipt of applications. Pursuant to the Board Policy Manual, applicants would be scheduled for interview at the August 15 regular meeting of the Board. The Board may make its appointment at the August 15 meeting, or at any properly noticed Board meeting conducted on or before September 16, 2019. (See Attachment 4.)

STRATEGIC PLAN:

Element 6.0 Public Affairs

Element 9.0 Administrative Management

FISCAL IMPACT:

TBD

ATTACHMENTS:

Attachment 1 - B. Smallman Notice of Resignation

Attachment 2 - Government Code Section 1780

Attachment 3 - Board Policy Manual, Relevant Excerpts

Attachment 4 - Proposed Schedule of Events; Draft Notice of Vacancy; Draft Application

**Nicholls, Gina R.**

---

**From:** Rick Rogers <rrogers@slvwd.com>  
**Sent:** Wednesday, July 17, 2019 11:19 AM  
**To:** Bill Smallman  
**Subject:** RE: Not sure...

Bill,  
Sorry to hear it but thank you for making your decision. This confirms that the District received your written resignation below, effective as of today. If that was not your intention, please let me know immediately. Otherwise, the District will start the process of declaring a vacancy and filling the empty Board seat.

Rick

Rick Rogers  
District Manager  
SLV Water District  
831-430-4624

---

**From:** Bill Smallman [mailto:bill@billsmallman.com]  
**Sent:** Wednesday, July 17, 2019 10:28 AM  
**To:** Rick Rogers <rrogers@slvwd.com>  
**Subject:** RE: Not sure...

Rick, I decided to resign. Tell everyone I'm sorry but I can't take the commute to make it to meetings.

Bill

On July 17, 2019 at 9:35 AM Rick Rogers <[rrogers@slvwd.com](mailto:rrogers@slvwd.com)> wrote:

Bill,

Thank you for the information. It is good to hear that you are back to work even if it is in San Francisco, hopefully the job in San Jose will work out for you. As far as your position on the Board you do need to make a decision one way or another. Fellow Board Members are getting restless with your empty seat inquiring what constitutes a vacancy and there is growing potential for political drama from the empty seat at meetings

Bill, this is your decision. I am not trying to push you in any direction except I am respectfully asking you to figure out how to stay on the Board and make it work or resign. This decision needs to be made sooner than later. If I or Gina could assist you in any way please don't hesitate to contact us. Gina can be reached at [gnicholls@nossaman.com](mailto:gnicholls@nossaman.com) or 213-612-7815.

Rick

From: Bill Smallman [mailto:[bill@billsmallman.com](mailto:bill@billsmallman.com)]  
Sent: Tuesday, July 16, 2019 10:06 AM  
To: Rick Rogers <[rrogers@slvwd.com](mailto:rrogers@slvwd.com)>; Lois Henry <[lhenry@slvwd.com](mailto:lhenry@slvwd.com)>  
Subject: Not sure...

Hi Rick, Lois,

I'm likely to have to resign my seat. I had to start a job in San Francisco, which in non-commutable, (over 2 hours). Even if I left work to go to a meeting I would get there around 7:30 pm. There is a chance I may get this job in San Jose, and if I will let you know if I hear back from them, or not, on Friday. As of now, I can't make the meeting this Thursday, and I haven't even had the time to review the materials or do anything for SLVWD the past several weeks. I'm working on a 54" water main project for SFPUC for Ranger Pipeline, who I used to work for.

-Bill.


[Home](#)
[Bill Information](#)
[California Law](#)
[Publications](#)
[Other Resources](#)
[My Subscriptions](#)
[My Favorites](#)

 Code: 

 Section: 


[Up^](#)
[<< Previous](#)
[Next >>](#)
[cross-reference chaptered bills](#)
[PDF](#)
[Add To My Favorites](#)



## GOVERNMENT CODE - GOV

**TITLE 1. GENERAL [100 - 7914]** ( Title 1 enacted by Stats. 1943, Ch. 134. )

**DIVISION 4. PUBLIC OFFICERS AND EMPLOYEES [1000 - 3599]** ( Division 4 enacted by Stats. 1943, Ch. 134. )

**CHAPTER 4. Resignations and Vacancies [1750 - 1782]** ( Chapter 4 enacted by Stats. 1943, Ch. 134. )

**ARTICLE 2. Vacancies [1770 - 1782]** ( Article 2 added by Stats. 1943, Ch. 134. )

**1780.** (a) Notwithstanding any other provision of law, a vacancy in any elective office on the governing board of a special district, other than those specified in Section 1781, shall be filled pursuant to this section.

(b) The district shall notify the county elections official of the vacancy no later than 15 days after either the date on which the district board is notified of the vacancy or the effective date of the vacancy, whichever is later.

(c) The remaining members of the district board may fill the vacancy either by appointment pursuant to subdivision (d) or by calling an election pursuant to subdivision (e).

(d) (1) The remaining members of the district board shall make the appointment pursuant to this subdivision within 60 days after either the date on which the district board is notified of the vacancy or the effective date of the vacancy, whichever is later. The district shall post a notice of the vacancy in three or more conspicuous places in the district at least 15 days before the district board makes the appointment. The district shall notify the county elections official of the appointment no later than 15 days after the appointment.

(2) If the vacancy occurs in the first half of a term of office and at least 130 days prior to the next general district election, the person appointed to fill the vacancy shall hold office until the next general district election that is scheduled 130 or more days after the date the district board is notified of the vacancy, and thereafter until the person who is elected at that election to fill the vacancy has been qualified. The person elected to fill the vacancy shall hold office for the unexpired balance of the term of office.

(3) If the vacancy occurs in the first half of a term of office, but less than 130 days prior to the next general district election, or if the vacancy occurs in the second half of a term of office, the person appointed to fill the vacancy shall fill the balance of the unexpired term of office.

(e) (1) In lieu of making an appointment the remaining members of the board may within 60 days of the date the district board is notified of the vacancy or the effective date of the vacancy, whichever is later, call an election to fill the vacancy.

(2) The election called pursuant to this subdivision shall be held on the next established election date provided in Chapter 1 (commencing with Section 1000) of Division 1 of the Elections Code that is 130 or more days after the date the district board calls the election.

(f) (1) If the vacancy is not filled by the district board by appointment, or if the district board has not called for an election within 60 days of the date the district board is notified of the vacancy or the effective date of the vacancy, whichever is later, then the city council of the city in which the district is wholly located, or if the district is not wholly located within a city, the board of supervisors of the county representing the larger portion of the district area in which the election to fill the vacancy will be held, may appoint a person to fill the vacancy within 90 days of the date the district board is notified of the vacancy or the effective date of the vacancy, whichever is later, or the city council or board of supervisors may order the district to call an election to fill the vacancy.

(2) The election called pursuant to this subdivision shall be held on the next established election date provided in Chapter 1 (commencing with Section 1000) of Division 1 of the Elections Code that is 130 or more days after the date the city council or board of supervisors calls the election.

(g) (1) If within 90 days of the date the district board is notified of the vacancy or the effective date of the vacancy, whichever is later, the remaining members of the district board or the appropriate board of supervisors or city

council have not filled the vacancy and no election has been called for, then the district board shall call an election to fill the vacancy.

(2) The election called pursuant to this subdivision shall be held on the next established election date provided in Chapter 1 (commencing with Section 1000) of Division 1 of the Elections Code that is 130 or more days after the date the district board calls the election.

(h) (1) Notwithstanding any other provision of this section, if the number of remaining members of the district board falls below a quorum, then at the request of the district secretary or a remaining member of the district board, the appropriate board of supervisors or the city council shall promptly appoint a person to fill the vacancy, or may call an election to fill the vacancy.

(2) The board of supervisors or the city council shall only fill enough vacancies by appointment or by election to provide the district board with a quorum.

(3) If the vacancy occurs in the first half of a term of office and at least 130 days prior to the next general district election, the person appointed to fill the vacancy shall hold the office until the next general district election that is scheduled 130 or more days after the date the district board is notified of the vacancy, and thereafter until the person who is elected at that election to fill the vacancy has been qualified. The person elected to fill the vacancy shall hold office for the unexpired balance of the term of office.

(4) If the vacancy occurs in the first half of a term of office, but less than 130 days prior to the next general district election, or if the vacancy occurs in the second half of a term of office, the person appointed to fill the vacancy shall fill the balance of the unexpired term of office.

(5) The election called pursuant to this subdivision shall be held on the next established election date provided in Chapter 1 (commencing with Section 1000) of Division 1 of the Elections Code that is held 130 or more days after the date the city council or board of supervisors calls the election.

*(Amended by Stats. 2007, Ch. 343, Sec. 4. Effective January 1, 2008.)*



20. RESIGNATIONS

Resignations by Directors shall be in writing, state the effective date and be submitted to the President of the Board of Directors and District Secretary. In the event the President of the Board of Directors resigns, the resignation shall be submitted to the Vice-President of the Board of Directors and the District Secretary.

21. VACANCIES

Directors are expected to carry out their responsibilities to the best of their abilities. In order to accomplish this goal, Directors should be present for scheduled meeting or events whenever possible. In accordance with California Government Code section 1770 a Director position vacancy will occur whenever "he or she ceases to discharge the duties of his or her office for the period of three consecutive months, except when prevented by sickness", or when absent from the Board of Directors without the permission of the majority of the Board of Directors.

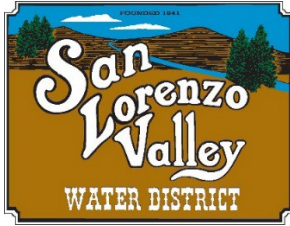
If such vacancy occurs, the Board of Directors will take action in accordance with California Government Code section 1770.

In order to accomplish this in an orderly and consistent manner, when a vacancy of an elected Director occurs, the District Board of Directors, after discussion and consideration, shall when deemed appropriate, instruct staff to:

- A) Place a public notice advising that a vacancy has occurred in accordance with applicable provisions of law; and
- B) Said notice shall advise prospective candidates of the steps to take to apply for appointment; and
- C) The District's Board of Directors shall establish the closing date for the receipt of applications; and
- D) Applicants shall submit the following, by the date specified in the notice:
  - 1) a letter of interest, and
  - 2) a resume, with particular emphasis on the applicant's knowledge of special districts, and
- E) Applicant(s) shall be interviewed at the next regularly scheduled meeting of the District's Board of Directors following the date of closure for applications; and
- F) The District's Board of Directors shall make the appointment without undue delay, but need not act at the same meeting.

VACANCY IN OFFICE OF DIRECTOR  
PROPOSED SCHEDULE OF EVENTS

<u>DATE</u>	<u>ACTION</u>
July 23, 2019	Board directs vacancy to be filled by appointment.
July 24, 2019	Staff posts Notice of Vacancy in accordance with Government Code Section 1780.
August 2, 2019	Last day to notify County Clerk of vacancy in accordance with Government Code Section 1780.
August 9, 2019	Last day to file a District resolution with the County Clerk calling an election and consolidating it with the November election.
August 8, 2019	Closing date for the receipt of applications.
August 15, 2019	Interview applicants; possible appointment.
August 30, 2019	If appointment is made on August 15, last day to notify County Clerk of appointment pursuant to Government Code Section 1780.
September 16, 2019	Last date to make an appointment.
November 5, 2019	County's next established election date.



# Notice of Vacancy

Interested persons are hereby notified that pursuant to Government Code §1780 there is a vacancy on the

**SAN LORENZO VALLEY WATER DISTRICT**

**Board of Directors**

The position to be filled is for a term ending when the November 2020 election results are certified.

The seat will go to election in 2020 for a new 4-year term.

Applications are available at the SLVWD Office located at:

13060 Highway 9, Boulder Creek, CA

On our website:

[www.slvwd.com](http://www.slvwd.com)

By contacting the District Secretary:

[hhossack@slvwd.com](mailto:hhossack@slvwd.com)

(831) 430-4636

**Applications are due August 8, 2019 by 5:00 pm**

Pursuant to Gov. Code §1780, this notice will be posted for 15 days in 3 or more conspicuous locations in the District from July 24, 2019



# Application for Appointment to Fill a Vacancy on the San Lorenzo Valley Water District Board of Directors

## Instructions:

If you are interested in serving as a Director on the San Lorenzo Valley Water District Board, please complete this application and return it to the District Secretary, 13060 Highway, Boulder Creek, CA 95006 or [hhossack@slvwd.com](mailto:hhossack@slvwd.com).

**Due Date is August 8, 2019 by 5:00 pm**

Date: \_\_\_\_\_

Name: \_\_\_\_\_

Address where you live: \_\_\_\_\_

Mailing address (if different): \_\_\_\_\_

Phone (daytime): \_\_\_\_\_ Phone (evening): \_\_\_\_\_

Email: \_\_\_\_\_

## **Statement of Qualifications:**

Please complete this section or attach a current resume.

**EDUCATION:**

Institution	Major	Degree	Year

**WORK/VOLUNTEER EXPERIENCE:**

Organization	City	Position	From	To

**Letter of Interest:**

Please briefly describe your qualifications and why you are interested in serving on the Board of Directors.

DRAFT

**Certification:**

I certify that the information contained in this application is true and correct. I authorize the verification of the information in this application.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Date

M E M O

TO: Board of Directors

FROM: District Manager

SUBJECT: AUTHORIZATION FOR THE EXECUTION AND DELIVERY OF DOCUMENTS RELATING TO THE SALE OF REVENUE CERTIFICATES OF PARTICIPATION, AND RELATED ACTIONS

DATE: July 23, 2019

BACKGROUND:

The San Lorenzo Valley Water District (the "District") desires to finance the cost of high-priority water system capital improvements, including certain water transmission and storage facilities (the "Project"). In order to finance the Project, to establish a reserve fund or purchase a reserve fund surety bond, and to pay the costs of the transaction, the District desires to sell "San Lorenzo Valley Water District Revenue Certificates of Participation, Series 2019" (the "Certificates").

The aggregate principal amount of the Certificates may not exceed \$15,000,000, with the aggregate true interest cost not to exceed 3.0%, and maturity not to exceed 30 years.

The Resolution would permit the sale of the Certificates and certain related actions. This financing structure is similar in some ways to a bond issuance, but it is not a bond issuance. The structure is described further in the next section below, and in the attached Nossaman memorandum.

The Resolution also would appoint Nossaman LLP as Special Counsel representing the District in connection with this financing.<sup>1</sup> Nossaman's Engagement Letter covers general public finance advice, but serving as bond and disclosure counsel for this type of transaction typically has a different fee structure as set forth in the Addendum No. 2 to the Engagement Letter. It will be billed at a flat fee of \$55,000 (rather than hourly), including all general and special counsel time and expenses incurred by Nossaman in connection with the transaction, payable only upon closing of the financing and only from the proceeds of the financing.

FINANCING STRUCTURE:

<sup>1</sup> Katherine Thursby, the Nossaman partner who is handling the special counsel work, will be transitioning to another law firm, Fox Rothschild LLP, starting August 1, 2019. Counsel, staff, and MCM are actively working on a plan to close the financing in a manner that will be as seamless as possible from the District's perspective, with no additional costs incurred by the District. This plan may involve presenting the Board with a further resolution at the August 1 board meeting to approve an agreement transferring a portion of the special counsel work.

For an overview of the proposed financing structure, please see the attached Executive Summary prepared by Nossaman.

In short, to accomplish the financing, the District will partner with a California nonprofit public benefit corporation (the "Corporation"), which will serve as a counterparty for the transaction. The District will grant the Corporation a property interest in the Project, and this property interest will be the subject of the installment purchase financing. The District will pay installment payments to a Trustee for the Certificates pursuant to a Trust Agreement, Installment Purchase Contract, and an Assignment Agreement.

The Certificates are to be sold to Municipal Capital Markets Group, Inc. (the "Underwriter"), who will in turn place the Certificates with investors, pursuant to a negotiated sale. The terms of the sale of the Certificates are set forth in the Certificate Purchase Contract.

The Resolution approves the forms of the Trust Agreement and Installment Purchase Contract, together with related documents, including the Assignment Agreement, Certificate Purchase Contract, Continuing Disclosure Agreement, and a Preliminary Official Statement, and authorizes the District Manager and his designees to take any and all actions necessary to consummate the sale, execution and delivery of the Certificates.

ATTACHMENTS:

1. Executive Summary of the Transaction (Nossaman Memorandum)
2. Proposed Resolution No. 3 (19-20)
3. Draft Installment Purchase Contract
4. Draft Trust Agreement
5. Draft Certificate Purchase Agreement
6. Draft Continuing Disclosure Agreement
7. Draft Assignment Agreement
8. Draft Limited Offering Memorandum
9. Proposed Addendum No. 2 to Engagement Agreement for Legal Services

FISCAL IMACT:

Total principal and interest to be paid is not to exceed \$32,150,000 over 30 years.

**Attachment 1**



ATTORNEYS AT LAW

50 California Street  
34th Floor  
San Francisco, CA 94111  
T 415.398.3600  
F 415.398.2438

Refer To File #: 502665-0002

July 19, 2019

**SAN LORENZO VALLEY WATER DISTRICT**

**Revenue Certificates of Participation, Series 2019**

**Executive Summary of the Transaction**

The San Lorenzo Valley Water District (the “District”) desires to finance the cost of certain water system capital improvements (the “Project”). In order to finance such Project, the District is currently considering entering into a new installment purchase financing through the sale and delivery of the San Lorenzo Valley Water District Revenue Certificates of Participation, Series 2019 (the “Certificates”). The purposes of this transaction are to finance the purchase of the Project, to fund a reserve fund or to purchase a reserve fund surety bond, and to pay the costs of the sale and delivery of the Certificates.

To accomplish the financing, the District will grant a California-based nonprofit public benefit corporation still to be selected (the “Corporation”), as counterparty, a property interest in the Project, which interest shall be the subject matter of the installment purchase financing. The District will pay Installment Payments to the Trustee for the Certificates pursuant to an Installment Purchase Contract (the “Installment Purchase Contract”) and an Assignment Agreement (the “Assignment Agreement”), each described below.

This memorandum provides a brief summary of the structure of the financing, as well as an explanation of the financing documents and the rights and obligations of the District under the financing documents.

There are seven main documents involved in this installment purchase. These include:

1. District Resolution;
2. Installment Purchase Contract;
3. Trust Agreement;
4. Certificate Purchase Contract;
5. Continuing Disclosure Agreement;
6. Assignment Agreement; and
7. Limited Offering Memorandum.



All of these documents have been prepared anticipating that the District will obtain a municipal bond insurance policy to be issued concurrently with the delivery of the Certificates to guarantee the District's payment of principal of and interest on the Certificates, when due.

### DISTRICT RESOLUTION

The Resolution of the Board of Directors of the District (the "District Resolution") authorizes the sale of the Certificates and specifies certain basic parameters of the Certificates, approves the forms of Trust Agreement, Installment Purchase Contract, Certificate Purchase Contract, Continuing Disclosure Agreement, and Preliminary Limited Offering Memorandum, all described below. In particular, Section 3 of the District Resolution establishes the maximum aggregate principal amount of the Certificates to be issued (\$15,000,000). Section 4 of the District Resolution provides for a negotiated sale of the Certificates pursuant to the Certificate Purchase Contract. Section 9 of the District Resolution, together with Exhibit A thereto, set forth good faith estimates of the following information: (a) the true interest cost of the Certificates, (b) the sum of all fees and charges paid to third parties with respect to the Certificates, (c) the amount of proceeds of the Certificates expected to be received net of the fees and charges paid to third parties and any reserves or capitalized interest paid or funded with proceeds of the Certificates, and (d) the sum total of all debt service payments on the Certificates calculated to the final maturity of the Certificates plus the fees and charges paid to third parties not paid with the proceeds of the Certificates, all in compliance with California law.

### TRUST AGREEMENT

The Trust Agreement (the "Trust Agreement") specifies the basic terms, parameters and forms of the Certificates. The Certificates will represent interests in the stream of Installment Payments created by the Installment Purchase Contract, as described below, which interests shall be sold to investors. The portion of the Installment Payments representing interest payments under the Installment Purchase Contract are exempt from federal and state income taxes, thus making the Certificates secured by such Installment Payments the equivalent of a tax-exempt bond to an investor.

Article II of the Trust Agreement provides authorization for the issuance and sale of the Certificates and describes their form and registration. Article IV of the Trust Agreement describes how the Certificates may be prepaid prior to their maturity. Specifically, the Certificates maturing after dates specified in Article IV may be prepaid at the option of the District, by the prepayment of Installment Payments, as described below.

Article III of the Trust Agreement provides for the payment of principal and interest of the Certificates utilizing Installment Payments received by the Trustee under the Installment Purchase Contract and the Assignment Agreement. Section 3.04 of the Trust Agreement provides for a Reserve Fund, the funds of which are to be used to make payments of principal and interest on the Certificates if the District should become unable to make timely Installment Payments. Article VI of the Trust Agreement describes events of default under the Trust Agreement, which are the same as those stated in the Installment Purchase Contract, and provides remedies that may be sought by the Trustee, on behalf of the owners of the Certificates. The form of the Certificates is attached to the Trust Agreement.

## INSTALLMENT PURCHASE CONTRACT

The Installment Purchase Contract sets forth the key business terms of the financing and many of the other financing documents are ancillary to it. Under the Installment Purchase Contract, the District agrees to acquire the Project from the Corporation and to make periodic Installment Payments to the Corporation.

### The Project and Title to the Project

The Project will not be used as collateral for the Installment Purchase Contract and title and control over such Project remains with the District through the term of the agreement. The District grants the Corporation an interest in the District's Net Revenues which will automatically terminate when the Installment Purchase Contract expires. The District will always remain the owner of the Project.

### Installment Purchase Contract Term

The term of the Installment Purchase Contract will commence on the date the Installment Purchase Contract is delivered and is expected to end on September 1, 2049, or such earlier date when all of the Installment Payments and any additional sums required thereunder are paid. The Installment Purchase Contract term may be shorter, however, if the District (1) exercises its option to prepay the Installment Payments, (2) prepays Installment Payments from the proceeds of an eminent domain award should the Project taken, or (3) defaults on its obligations under the Installment Purchase Contract as a consequence of which the Corporation elects to terminate the Installment Purchase Contract.

### Installment Payments

Throughout the term of the Installment Purchase Contract the District will make Installment Payments semiannually according to a predetermined Installment Purchase Contract Payment schedule (each September 1 and March 1, commencing March 1, 2020). Installment Payments will be in amounts equal to the principal and interest due with respect to the Certificates and, for this reason, the Installment Purchase Contract payment schedule will be determined at the time the Certificates are sold and their interest rates are determined. Installment Payments will be made to the Trustee pursuant to the Assignment Agreement and the Trust Agreement. The District covenants in the Installment Purchase Contract to include all Installment Payments in the District's annual budget, and to certify to the Trustee that it has done so.

### Option to Prepay Installment Payments

The Installment Purchase Contract grants the District an option to prepay all or a portion of the Installment Payments required by the Installment Purchase Contract on the dates indicated in in Article IV of the Trust Agreement. As a result, the Trustee would have funds available to prepay all or a portion of the Certificates. In the event that the District elects to prepay all of the Installment Payments, the District's obligations under the Installment Purchase Contract will cease, and the Installment Purchase Contract will terminate. Should the District elect to prepay only a portion of the scheduled Installment Payments, the Installment Purchase Contract will remain in effect and the amount of such prepayment will be applied to reduce the principal component of the remaining Installment Payments *pro rata* at the election of the District.

### Other Costs

The District will be required to pay certain administrative costs associated with the Installment Purchase Contract. These obligations are in addition to the District's obligation to make Installment Payments.

### Events of Default

Failures by the District to meet certain of its obligations under the Installment Purchase Contract constitute "Events of Default." Such Events of Default include (1) the failure of the District to make Installment Payments when due, (2) the failure of the District to perform any warranty, covenant, condition or agreement under the Installment Purchase Contract for a period of 60 days after notice of such failure is given to the District, (3) the occurrence of certain events of bankruptcy or insolvency with respect to the District and (4) the occurrence of an event of default under any other debt instrument of the District. The occurrence of an Event of Default gives the Trustee, as assignee of the Corporation, the right to exercise certain remedies.

### Remedies

The Trustee, as assignee of the Corporation's rights pursuant to the Assignment Agreement, has certain remedies available to it under the Installment Purchase Contract should an Event of Default occur. Most significantly, upon default by the District, the Trustee will have the right to accelerate Installment Payments and to declare Installment Payments not yet due to be immediately due and payable. In addition to these remedies specifically provided by the Installment Purchase Contract, the Trustee may also exercise any other remedy available to it at law.

### Summary of the District's Duties Under the Installment Purchase Contract

The District has the following duties under the Installment Purchase Contract:

- 1) To make Installment Payments semiannually.
- 2) To include all Installment Payments in the District's proposed and actual annual budgets.
- 3) To fix, prescribe and collect rates, fees and charges in connection with the District's enterprises so as to yield revenues at least sufficient, after making reasonable allowances for contingencies and errors in the estimates, to pay the following amounts in the order below set forth: (i) all maintenance and operation costs of the District's enterprises; (ii) the Installment Payments and all payments with respect to related parity debt obligations issued or incurred in the future; (iii) amounts necessary to bring the amount of funds in the Reserve up to the requirement therefor within two years of a withdrawal therefrom; and (iv) all payments required to meet any other obligations of the District which are charges, liens, encumbrances upon, or which are otherwise payable from the revenues during such Fiscal Year. Revenues leftover after the payment of all maintenance and operation costs of the District's enterprises must equal at least 125% of the Installment Payments and payments due under any related parity debt obligations issued or incurred in the future in each fiscal year.
- 4) To pay all taxes, assessments, utilities, maintenance and repair costs and other charges relating to the Project.

5) To maintain and preserve the District's enterprises in good repair and working order at all times and to operate the District's enterprises in an efficient and economical manner.

6) To not sell, lease, encumber or otherwise dispose of the District's enterprises or any significant part thereof, unless such sale, lease, encumbrance or disposition will not materially adversely affect the operation of the enterprises.

7) To pay the fees and expenses of the Corporation, as well as the fees of any auditors, accountants or engineers.

8) To maintain insurance on the District's enterprises with commercial insurers or through participation in a joint powers insurance authority, in such amounts, with such deductibles and against such risks (including accident to or destruction of the enterprises) as are usually insurable in connection with similar enterprises.

9) To indemnify the Corporation and its directors and employees against any loss or claim to which such parties may become subject in connection with the Installment Purchase Contract.

10) To avoid any use of proceeds of the Installment Purchase Contract or other property which may cause the Installment Purchase Contract to become "arbitrage Certificates," "private activity Certificates," or "federally guaranteed" within the meaning of the Internal Revenue Code of 1986, and to comply with all applicable Internal Revenue Code provisions and Treasury regulations.

#### ASSIGNMENT AGREEMENT

In order to allow the Trustee to receive the stream of Installment Payments for use to pay principal and interest payments on the Certificates, and to enable the Trustee to perform certain other acts with respect to the Installment Purchase Contract required by the Installment Purchase Contract, the Corporation assigns certain of its rights under the Installment Purchase Contract to the Trustee. Specifically, the Corporation assigns its right to receive Installment Payments, its right to receive the proceeds of certain insurance on the Project and its right to enforce remedies under the Installment Purchase Contract.

#### CERTIFICATE PURCHASE CONTRACT

Pursuant to the Certificate Purchase Contract, Municipal Capital Markets Group, Inc. (the "Underwriter") will agree to buy the Certificates from the District. All the conditions of closing the transaction are set forth in this document, including the documentation to be provided at the closing by various parties. Upon the pricing of the Certificates, the final execution copy of the Purchase Contract will be prepared following this form.

#### CONTINUING DISCLOSURE AGREEMENT

All underwriters of municipal bonds are obligated to procure from any public agency issuing debt a covenant that such public agency will annually file "material financial information and

operating data” with respect to such public agency through the web-based Electronic Municipal Market Access (“EMMA”) system maintained by the Municipal Securities Rulemaking Board (a federal agency that regulates “broker-dealers,” including investment bank firms that underwrite municipal obligations). This requirement is expected to be satisfied by the filing of the District’s audited financial statements and other operating information about the District, in the same manner the District has filed in connection with prior bond issuances.

### PRELIMINARY LIMITED OFFERING MEMORANDUM

The Preliminary Limited Offering Memorandum (the “PLOM”) is the offering document describing the Certificates which may be distributed to prospective purchasers of the Certificates. The PLOM discloses information with respect to, among other things, (i) the proposed uses of proceeds of the Certificates, (ii) the terms of the Certificates (interest rate, redemption terms, etc.), (iii) the bond insurance policy for the Certificates, if any, (iv) the security for repayment of the Certificates (the Installment Purchase Contract and Installment Payments), (v) information with respect to the District financial and operating data (as the District’s general fund is the source of payment for the Installment Payments), (vi) continuing disclosure with respect to the Certificates and the District, and (vii) absence of litigation and other miscellaneous matters expected to be of interest to prospective purchasers of the Certificates. Following the pricing of the Certificates, a final Official Statement for the Certificates will be prepared, substantially in the form of the PLOM.

**Attachment 2**

**RESOLUTION NO. 3 (19-20)**

RESOLUTION OF THE SAN LORENZO VALLEY WATER DISTRICT APPROVING AN INSTALLMENT PURCHASE CONTRACT, A TRUST AGREEMENT, A CERTIFICATE PURCHASE AGREEMENT, A CONTINUING DISCLOSURE CERTIFICATE AND AN LIMITED OFFERING MEMORANDUM; MAKING CERTAIN DETERMINATIONS RELATING THERETO; AND AUTHORIZING CERTAIN OTHER ACTIONS IN CONNECTION THEREWITH

WHEREAS, the San Lorenzo Valley Water District (the “District”) is a county water agency duly organized and validly existing under the laws of the State of California; and

WHEREAS, the District is authorized to sell and purchase its property to finance and refinance public capital improvements, including certain water storage and transmission facilities the District has or intends to acquire (the “Project”); and

WHEREAS, in order to finance the Project, the District has determined to enter into an Installment Purchase Contract with the Municipal Finance Corporation (the “Corporation”) pursuant to which the District will repurchase the Project from the Corporation; and

WHEREAS, under and pursuant to such Installment Purchase Contract, the District will be obligated to make certain installment payments to the Corporation; and

WHEREAS, the District has determined that it would be in the best interests of the District and the citizens of the community to authorize the preparation, execution and delivery of its Revenue Certificates of Participation, Series 2019 (the “Certificates”), in a principal amount sufficient to finance the Project, which Certificates shall be payable from, among other sources, payments made by the District under and pursuant to such Installment Purchase Contract, all under and in accordance with the laws of the State of California; and

WHEREAS, there have been presented at this meeting forms of an Installment Purchase Contract, a Trust Agreement, a Certificate Purchase Agreement, a Continuing Disclosure Agreement and a preliminary Limited Offering Memorandum; and

WHEREAS, the District desires to appoint Nossaman LLP, as special counsel (“Special Counsel”), in connection with the financing of the Project; and

WHEREAS, Senate Bill 450 (Chapter 625 of the 2017-2018 Session of the California Legislature) (“SB 450”) requires that the Board of Directors of the District (the “Board”) obtain from an underwriter, municipal advisor or private lender and disclose, prior to authorization of the issuance of bonds, including debt instruments such as the Certificates, with a term of greater than 13 months, good faith estimates of the following information in a meeting open to the public: (a) the true interest cost of the Certificates, (b) the sum of all fees and charges paid to third parties with respect to the Certificates, (c) the amount of proceeds of the Certificates expected to be received net of the fees and charges paid to third parties and any reserves or capitalized interest paid or funded with proceeds of the Certificates, and (d) the sum total of all debt service payments

on the Certificates calculated to the final maturity of the Certificates plus the fees and charges paid to third parties not paid with the proceeds of the Certificates; and

WHEREAS, in compliance with SB 450, the Board obtained from the Underwriter (defined herein) the required good faith estimates and such estimates are disclosed and set forth on Exhibit A attached hereto; and

WHEREAS, all acts, conditions and things required by the Constitution and laws of the State of California to exist, to have happened and to have been performed precedent to and in connection with the consummation of the financing authorized hereby do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the District is now duly authorized and empowered, pursuant to each and every requirement of law, to consummate such financing for the purpose, in the manner and upon the terms herein provided.

NOW, THEREFORE, BE IT RESOLVED, DETERMINED AND ORDERED BY THE SAN LORENZO VALLEY WATER DISTRICT AS FOLLOWS:

SECTION 1. Recitals. All of the recitals herein contained are true and correct and the Board of Directors so finds.

SECTION 2. Approval of Installment Purchase Contract. The form of Installment Purchase Contract, currently dated as of July 1, 2019 (the "Installment Purchase Contract"), between the District and the Corporation, as presented to the District at this meeting, is hereby approved. The President of the Board of Directors, District Manager, the Director of Finance and Business Services, and the District Secretary or any other officers duly designated by the District (the "Officers") are hereby authorized and directed, for and on behalf of the District, to execute, acknowledge and deliver the Installment Purchase Contract, in substantially the form presented to the District at this meeting, with such changes therein as such Officers may require or approve, with the advice and approval of counsel to the District, such approval to be conclusively evidenced by the execution and delivery thereof.

SECTION 3. Approval of Trust Agreement. The proposed form of the Trust Agreement currently dated as of July 1, 2019 (the "Trust Agreement"), among the Corporation, Zions Bancorporation, National Association, as trustee (the "Trustee") and the District, as presented to the District at this meeting, is hereby approved. Each of the Officers is hereby authorized and directed, for and on behalf of the District, to execute, acknowledge and deliver the Trust Agreement, in substantially the form presented to the District at this meeting, with such changes therein as such Officers may require or approve, with the advice and approval of counsel to the District, such approval to be conclusively evidenced by the execution and delivery thereof. In connection therewith, the District approves the execution and delivery of the Certificates so long as the maturity does not exceed 30 years, the aggregate true interest cost does not exceed 3.0%, and the aggregate principal amount does not exceed \$15,000,000.

SECTION 4. Approval of Certificate Purchase Agreement. The form of Certificate Purchase Agreement (the "Purchase Agreement"), between the District and Municipal Capital Markets Group, Inc. (the "Underwriter"), as presented to the District at this meeting, is hereby approved. Each of the Officers is hereby authorized and directed, for and on behalf of the

District, to execute, acknowledge and deliver the Purchase Agreement, in substantially the form presented to the District at this meeting, with such changes therein as such Officers may require or approve, with the advice and approval of counsel to the District, such approval to be conclusively evidenced by the execution and delivery thereof.

**SECTION 5. Approval of Preliminary and Final Limited Offering Memorandum.**

The form of Preliminary Limited Offering Memorandum as presented to the District at this meeting, is hereby approved. Each of the Officers is hereby authorized and directed, for and on behalf of the District, to execute all certificates necessary to deem final the Preliminary Limited Offering Memorandum as of its date within the meaning of Rule 15c2-12 of the Securities Exchange Act of 1934, with the exception of certain final pricing and related information. Each of the Officers is hereby authorized and directed, for and on behalf of the District, to execute and deliver the final Limited Offering Memorandum when completed. The use and distribution of said Preliminary Limited Offering Memorandum and use and distribution of the final Limited Offering Memorandum in connection with the sale of the Certificates is hereby ratified and approved. The Underwriter is directed to deliver copies of the final Limited Offering Memorandum to all actual purchasers of the Certificates.

**SECTION 6. Approval of Continuing Disclosure Certificate.** The proposed form of the Continuing Disclosure Certificate (the "Continuing Disclosure Certificate), to be executed by the District, as presented to the District at this meeting, is hereby approved. Each of the Officers is hereby authorized and directed, for and on behalf of the District, to execute, acknowledge and deliver the Continuing Disclosure Certificate, in substantially the form presented to the District at this meeting, with such changes therein as such Officers may require or approve, with the advice and approval of counsel to the District, such approval to be conclusively evidenced by the execution and delivery thereof.

**SECTION 7. Municipal Bond Insurance.** The Board of Directors of the District hereby authorizes the Director of Finance and Business Services to select a municipal bond insurer to insure payments of principal of and interest on all or a portion of the Certificates so long as the Director of Finance and Business Services determines that obtaining the municipal bond insurance policy provided thereby will result in a lower interest rate or yield to maturity with respect to such Certificates. Further, the Board of Directors of the District hereby authorizes the Director of Finance and Business Services to select a municipal bond insurer to provide a reserve fund surety bond to be deposited into the reserve fund for the Certificates, so long as the Director of Finance and Business Services determines that obtaining the reserve fund surety will be cost effective to the District. Each of the Officers is hereby authorized to execute and deliver any customary agreement with the municipal bond insurer providing the reserve fund surety bond. Special Counsel, is hereby directed to make all changes to the Trust Agreement, the Installment Purchase Contract, the Preliminary Limited Offering Memorandum, the Certificate Purchase Agreement and the Continuing Disclosure Certificate, as are necessary to reflect the selection of a municipal bond insurer and/or reserve fund surety bond and the reasonable comments thereof.

**SECTION 8. Financial Covenants.** Notwithstanding anything to the contrary in this Resolution, the District, with the advice of District Counsel and Special Counsel, may modify the financial covenants and requirements set forth in the Installment Purchase Contract and Trust Agreement, including, but not limited to, the parity obligations test, rate covenant and the



necessity of a reserve fund for the Certificates, to the extent such revisions are deemed necessary or desirable by the District for the execution and delivery of the Certificates based on advice from District Counsel and Special Counsel; provided, however, that any such modifications or revisions shall not materially increase the financial or operational risks to the District and shall otherwise be subject to the terms hereof.

SECTION 9. SB 450 Information. In accordance with SB 450, good faith estimates of the following have been obtained from the Underwriter and are set forth on Exhibit A attached hereto: (a) the true interest cost of the Certificates, (b) the sum of all fees and charges paid to third parties with respect to the Certificates, (c) the amount of proceeds of the Certificates expected to be received net of the fees and charges paid to third parties and any reserves or capitalized interest paid or funded with proceeds of the Certificates, and (d) the sum total of all debt service payments on the Certificates calculated to the final maturity of the Certificates plus the fees and charges paid to third parties not paid with the proceeds of the Certificates.

SECTION 10. Special Counsel. The Board of Directors hereby appoints the firm of Nossaman LLP, as Special Counsel, in connection with the financing of the Project. The Board of Directors hereby authorizes the District Manager and the Director of Finance and Business Services to execute and deliver an agreement with said firm for its services. Payment of fees and expenses with respect to such agreement shall be contingent upon the execution of the Certificates.

SECTION 11. Other Acts. The Officers and staff of the District are hereby authorized and directed, jointly and severally, to do any and all things, to execute and deliver any and all documents, which in consultation with District Counsel and Special Counsel, they may deem necessary or advisable in order to effectuate the purposes of this Resolution, including without limitation, obtaining insurance with respect to the payment of the interest and principal represented by the Certificates or ratings on the Certificates, and any and all such actions previously taken by such Officers or staff members are hereby ratified and confirmed.

SECTION 12. Effective Date. This Resolution shall take effect upon adoption.

PASSED, APPROVED AND ADOPTED this 23<sup>rd</sup> day of July, 2019, by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

**SAN LORENZO VALLEY WATER DISTRICT**

---

President

ATTESTED:

---

District Secretary

I hereby certify that the above Resolution No. 3 (19-20) was duly introduced,  
read and adopted by the District at a regular meeting held on July 23, 2019

---

District Secretary

## **Exhibit A**

### **GOOD FAITH ESTIMATES**

The following information was obtained from the Underwriter and is provided in compliance with Senate Bill 450 (Chapter 625 of the 2017-2018 Session of the California Legislature) with respect to the Certificates:

1. True Interest Cost of the Certificates. A good faith estimate of the true interest cost of the Certificates, which means the rate necessary to discount the amounts payable on the respective principal and interest payment dates to the purchase price received for Certificates, is 3%.

2. Finance Charge of the Certificates. A good faith estimate of the District's finance charge of the Certificates, which means the sum of all fees and charges paid to third parties (or costs associated with the Certificates), is not to exceed 2% of the par amount of the bonds.

3. Amount of Proceeds to be Received by the District. A good faith estimate of the amount of proceeds expected to be received by the District for sale of the Certificates less the finance charge of the Certificates described in paragraph 2 above, is not to exceed \$15,000,000.

4. Total Payment Amount. A good faith estimate of the total payment amount, which means the sum total of all payments the District will make to pay debt service on the Certificates plus the finance charge of the Certificates described in paragraph 2 above not paid with the proceeds of the Certificates, calculated to the final maturity of the Certificates, is not to exceed \$32,150,000 over 30 years.

**Attachment 3**

---

**INSTALLMENT PURCHASE CONTRACT**

**between the**

**SAN LORENZO VALLEY WATER DISTRICT**

**and the**

**MUNICIPAL FINANCE CORPORATION**

**Dated as of July 1, 2019**

---

**TABLE OF CONTENTS**

	<u>Page</u>
ARTICLE I DEFINITIONS 1	
Section 1.01. Definitions. ....	1
ARTICLE II ACQUISITION OF THE PROJECT .....	7
Section 2.01. Acquisition of the Project. ....	7
Section 2.02. Indemnification and Expenses of Corporation. ....	8
Section 2.03. District to Act as Agent; Corporation not Liable. ....	8
Section 2.04. Disclaimer of the Corporation. ....	8
ARTICLE III INSTALLMENT PAYMENTS, REVENUES AND ACCOUNTS.....	9
Section 3.01. Payment of the Installment Payments. ....	9
Section 3.02. Interest Component of the Installment Payments. ....	9
Section 3.03. Establishment of Accounts. ....	10
Section 3.04. Pledge of Net Revenues and Other Funds; Revenue Fund. ....	10
Section 3.05. Receipt and Deposit of Revenues. ....	10
Section 3.06. Establishment and Maintenance of Accounts for Revenues; Use and Withdrawal of Revenues. ....	10
Section 3.07. Reserved. ....	11
Section 3.08. Certain Necessary Transfers. ....	11
Section 3.09. Additional Payments. ....	11
ARTICLE IV DEPOSITS; ADDITIONAL CONTRACTS AND PARITY OBLIGATIONS .....	12
Section 4.01. Deposits to Installment Payment Fund. ....	12
Section 4.02. Reserve Fund. ....	12
Section 4.03. Parity Obligations. ....	13
ARTICLE V REPRESENTATIONS, COVENANTS AND WARRANTIES .....	14
Section 5.01. Compliance with Installment Purchase Contract. ....	14
Section 5.02. Against Encumbrances. ....	15
Section 5.03. Against Sale or Other Disposition of Property. ....	15
Section 5.04. Against Competitive Facilities. ....	15
Section 5.05. Tax Covenants. ....	16
Section 5.06. Prompt Acquisition. ....	16
Section 5.07. Maintenance and Operation of the Enterprise; Budgets. ....	16
Section 5.08. Payment of Claims. ....	16
Section 5.09. Compliance with Contracts. ....	17
Section 5.10. Insurance. ....	17
Section 5.11. Books and Accounts; Financial Statements .....	18
Section 5.12. Protection of Security and Rights of Corporation; Amendment. ....	19
Section 5.13. Payment of Taxes and Compliance with Governmental Regulations. ....	19

Section 5.14. Amount of Rates and Charges..... 19  
Section 5.15. Operation of Enterprise; Collection of Rates and Charges. .... 20  
Section 5.16. Eminent Domain Proceeds..... 21  
Section 5.17. Further Assurances. .... 21  
Section 5.18. Release and Indemnification Covenants..... 21  
Section 5.19. Further Representations, Covenants and Warranties of the  
District. .... 22  
Section 5.20. Representations, Covenants and Warranties of the Corporation..... 23  
Section 5.21. Continuing Disclosure. .... 23

ARTICLE VI PREPAYMENT OF INSTALLMENT PAYMENTS..... 24  
Section 6.01. Prepayment. .... 24  
Section 6.02. Method of Prepayment. .... 24  
Section 6.03. Security Deposit. .... 25

ARTICLE VII EVENTS OF DEFAULT AND REMEDIES ..... 25  
Section 7.01. Events of Default and Events of Mandatory Acceleration;  
Acceleration of Maturities. .... 25  
Section 7.02. Application of Funds Upon Acceleration..... 26  
Section 7.03. Other Remedies of the Corporation..... 26  
Section 7.04. Non-Waiver. .... 27  
Section 7.05. Remedies Not Exclusive..... 27  
Section 7.06. Rights of the Insurer. .... 28

ARTICLE VIII MISCELLANEOUS ..... 28  
Section 8.01. Liability of District Limited. .... 28  
Section 8.02. Benefits of Installment Purchase Contract Limited to Parties..... 28  
Section 8.03. Successor Is Deemed Included In All References to Predecessor. .... 28  
Section 8.04. Waiver of Personal Liability..... 29  
Section 8.05. Article and Section Headings, Gender and References..... 29  
Section 8.06. Partial Invalidity. .... 29  
Section 8.07. Assignment. .... 29  
Section 8.08. Net Contract..... 30  
Section 8.09. California Law..... 30  
Section 8.10. Notices. .... 30  
Section 8.11. Effective Date. .... 30  
Section 8.12. Execution in Counterparts. .... 30  
Section 8.13. Amendments..... 31

EXHIBIT A - COMPONENTS OF THE PROJECT ..... A-1  
EXHIBIT B - INSTALLMENT PAYMENT SCHEDULE .....B-1

## **INSTALLMENT PURCHASE CONTRACT**

This INSTALLMENT PURCHASE CONTRACT, dated as of July 1, 2019 (the “Installment Purchase Contract”), is entered into by and between the SAN LORENZO VALLEY WATER DISTRICT, a county water agency duly organized and validly existing under and by virtue of the laws of the State of California (the “District”), and the MUNICIPAL FINANCE CORPORATION, a non-profit public benefit corporation duly organized and validly existing under the laws of the State of California (the “Corporation”);

### **WITNESSETH:**

WHEREAS, the District is authorized by the laws of the State of California to acquire certain water storage and transmission facilities (the “Project”) and to finance and refinance the acquisition and construction of such facilities through the execution of installment purchase contracts; and

WHEREAS, the District has determined that it is in the best interests of the District and its citizens, and it is necessary and proper for District purposes, that the District acquire the Project from the Corporation in the manner described herein for the purposes of financing the Project as described herein, and that the District pay the Corporation for the costs of acquiring the Project in the manner described herein; and

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

NOW, THEREFORE, IN CONSIDERATION OF THE PROMISES AND OF THE MUTUAL AGREEMENTS AND COVENANTS CONTAINED HEREIN AND FOR OTHER VALUABLE CONSIDERATION, THE PARTIES HERETO DO HEREBY AGREE AS FOLLOWS:

### **ARTICLE I DEFINITIONS**

#### **Section 1.01. Definitions.**

Unless the context otherwise requires, the terms defined in this Section 1.01 shall for all purposes hereof, and of any amendment hereof, and of any opinion or report or other document mentioned herein or therein have the meanings defined herein, the following definitions to be equally applicable to both the singular and plural forms of any of the terms defined herein.



All capitalized terms used in this Installment Purchase Contract and not defined herein shall have the meanings ascribed thereto in the Trust Agreement.

“Accountant’s Report” means a report signed by an Independent Certified Public Accountant.

“Acquisition,” “Acquire” or “Acquired” means, with respect to the Project, the acquisition or perfection of an ownership or capacity interest in the Project, or the construction, refinancing or ownership of the Project.

“Alternate Project” means an alternate project designated by the District pursuant to Section 2.01 hereof.

“Business Day” means any day other than a Saturday, Sunday or legal holiday or a day on which banks are authorized to be closed for business in California and New York.

“Certificates” has the meaning set forth in the Trust Agreement.

“Certificate Year” means the twelve calendar month period commencing on September 2 and terminating on September 1 of the following year; provided, that the first Certificate Year shall commence on the Closing Date and terminate on September 1, 2019.

“Certificate Reserve Policy” means the municipal bond debt service reserve insurance policy, and any endorsement thereto, issued by the Insurer under which claims may be made in order to provide moneys in the Reserve Fund available for the purposes thereof

“Closing Date” means July [31], 2019.

“Code” means the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder.

“Due Date” means each February 15 and August 15, commencing February 15, 2020.

“Engineer’s Report” means a report signed by an Independent Engineer.

“Enterprise” means the District’s water and sewer system, including all facilities, works, properties and structures of the District for the treatment, transmission and distribution of potable and non-potable water, including all contractual rights to water supplies, transmission capacity supply, and for the collection of and treatment of wastewater and/or stormwater, as well as including all easements, rights-of-way and other works, property or structures necessary or convenient for such facilities, together with all additions, betterments, extension and improvements to such facilities or any part thereof hereafter acquired or constructed. The Enterprise is not security for the Certificates.

“Event of Default” means an event of default described in Section 7.01.

“Fiscal Year” means the twelve calendar month period terminating on June 30 of each year, or any other annual accounting period hereafter selected and designated by the District as its Fiscal Year in accordance with applicable law.

“Generally Accepted Accounting Principles” means the uniform accounting and reporting procedures prescribed by the California State Controller or his successor for county water agencies in the State of California, 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.

“Governmental Loan” means a loan from the State or the United States of America, acting through any of its agencies, to finance or refinance improvements to the Enterprise, and the obligation of the District to make payments to the State or the United States of America under the loan agreement memorializing said loan on a parity basis with the payment of Installment Payments.

“Independent Certified Public Accountant” means any certified public accountant or firm of certified public accountants duly licensed and entitled to practice, and practicing as such, under the laws of the State of California, appointed and paid by the District, and each of whom--

1. is in fact independent 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 board member, officer or employee of the District, but may be regularly retained to audit the accounting records of and make reports thereon to the District.

“Independent Engineer” means any registered engineer or firm of engineers of national reputation generally recognized to be well qualified in engineering matters relating to systems similar to the Enterprise, appointed and paid by the District, and who or each of whom--

1. is in fact independent and not under the domination of the District;
2. does not have a substantial financial interest, direct or indirect, in the District; and
3. is not connected with the District as a board member, officer or employee of the District, but may be regularly retained to make reports to the District.

“Independent Financial Consultant” means any financial consultant or firm of such consultants of national reputation generally recognized to be well qualified in financial matters relating to systems similar to the Enterprise, appointed and paid by the District, and who, or each of whom--

1. is in fact independent and not under the control of the District;

2. does not have a substantial financial interest, direct or indirect, in the District; and
3. is not connected with the District as a board member, officer or employee of the District, but may be regularly retained to make reports to the District.

“Installment Payments” means the installment payments of principal and interest scheduled to be paid by the District under this Installment Purchase Contract plus amounts required to be paid by the District hereunder and pursuant to the Trust Agreement, including, without limitation (except when calculating the Reserve Requirement), amounts necessary to replenish the Reserve Fund and amount due the Insurer under the Insurance Policy.

“Insurance Consultant” means any nationally recognized independent actuary, insurance company or broker who has actuarial personnel knowledgeable with respect to insurance carried by, required for and available to special districts operating facilities similar to the Enterprise, including a pooled self-insurance program in which premiums are established on the basis of the recommendation of an actuary of national reputation.

“Insurance Policy” means the Municipal Bond Insurance Policy issued by the Insurer with respect to the Certificates.

“Insurer” means Build America Mutual Assurance Company, its successors and assigns, as issuer of the Insurance Policy.

“Interest Payment Date” means each March 1 and September 1, commencing on March 1, 2020.

“Late Payment Rate” means the lesser of (a) the greater of (i) the per annum rate of interest, publicly announced from time to time by JPMorgan Chase Bank, N.A., at its principal office in The City of New York, New York, as its prime or base lending rate (“Prime Rate”) (any change in such Prime Rate to be effective on the date such change is announced by JPMorgan Chase Bank, N.A.) plus 3%, and (ii) the then applicable highest rate of interest with respect to the Certificates, and (b) the maximum rate permissible under applicable usury or similar laws limiting interest rates. In the event JPMorgan Chase Bank, N.A., ceases to announce its Prime Rate, the Prime Rate shall be the prime or base lending rate of such other bank, banking association or trust company as the Insurer, in its sole and absolute discretion, shall designate. Interest at the Late Payment Rate on any amount owing to the Insurer shall be computed on the basis of the actual number of days elapsed in a year of 360 days.

“Lompico Assessments” means all assessments levied on behalf of Assessment District No. 2016-1, which has been formed to finance the upgrade and repair of existing facilities within the Assessment District No. 2016-1 related to the merging of the Lompico County Water District with the District, and which assessments shall be levied the parcels within Assessment District No. 2016-1 boundaries and will be collected for 10 years beginning with the Fiscal Year 2016-17 levy.

“Maintenance and Operation Costs” of the Enterprise means the reasonable and necessary costs spent or incurred by the District for maintaining and operating the Enterprise,

calculated in accordance with Generally Accepted Accounting Principles, including all reasonable and necessary expenses of management and repair and other expenses necessary to maintain and preserve the Enterprise in good repair and working order, and including all reasonable and necessary administrative costs of the District attributable to the Enterprise and to the Trust Agreement, the Certificates, Parity Obligations and Contracts, such as salaries and wages of employees, overhead, insurance, taxes (if any), expenses, reasonable compensation and indemnification of fiscal agents, paying agents and trustees with respect to the foregoing and fees of auditors, accountants, attorneys or engineers, 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 and the Certificates, Parity Obligations and Contracts and all applicable federal, state and local requirements pertaining to the operation of the Enterprise, but excluding depreciation, replacement and obsolescence charges or reserves therefore and amortization of intangible or other bookkeeping entries of a similar nature.

“Maximum Annual Debt Service” means, as of the date of any calculation, the maximum sum obtained for the current or any future Fiscal Year so long as any of the Certificates remain Outstanding by totaling the following amounts for such Fiscal Year:

(a) the principal amount of the Installment Payments and Parity Obligations coming due and payable by their terms in such Fiscal Year, including the principal amount of any term Certificates and term Parity Obligations which are subject to mandatory sinking fund redemption in such Fiscal Year; and

(b) the amount of interest (net of any interest subsidy with respect to the Installment Payments or any Parity Obligations, paid or payable to or for the account of the District by any governmental body or agency) which would be due during such Fiscal Year on the aggregate principal amount of the Certificates and Parity Obligations which would be Outstanding in such Fiscal Year if such Certificates and Parity Obligations are retired as scheduled.

“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, all of the Revenues during such period less all of the Maintenance and Operation Costs during such period.

“Outstanding” shall have the same meaning set as forth in the Trust Agreement.

“Parity Obligations” amounts owed to the Insurer under the Insurance Policy all bonds, notes, loan agreements, installment sale agreements, leases or other obligations of the District, payable from and secured by a pledge of and lien upon any of the Net Revenues incurred on a parity with the payment of the Installment Payments pursuant to Section 4.03 hereof, including, but not limited to the 2008 Assigned Felton Loan Contract, the 2012 Water Revenue Refunding Bonds, the 2016 Solar Government Obligation Contract and the 2018 Installment Purchase Contract.

“Project” means the Project described in Exhibit A attached hereto, including any Alternate Project.

“Reserve Requirement” shall have the meaning provided in the Trust Agreement.

“Revenue Fund” means the fund maintained by the District into which it deposits Revenues.

“Revenues” means all gross income and revenue received or receivable by the District from the ownership and operation of the Enterprise, calculated in accordance with Generally Accepted Accounting Principles, including all rates, fees and charges received by the District for water and wastewater service (including fees for connecting to the Enterprise and any water stand-by or water availability charges or assessments) and including the District’s share of property taxes remitted to the District by the Santa Cruz County Treasurer’s Office, all as and when received by the District for the Enterprise and all other income and revenue howsoever derived by the District from the Enterprise or arising from the Enterprise; provided, however, that (i) any specific charges or assessments, including but not limited to the Lompico Assessments, levied for the express purpose of reimbursing others for all or a portion of the cost of the acquisition or construction of specific facilities, (ii) customers’ deposits or any other deposits subject to refund until such deposits have become the property of the District, (iii) grants which are designated by the grantor for a specific purpose and are therefore not available, are not Revenues and are not subject to the lien of the Trust Agreement, or (iv) net proceeds of eminent domain proceedings and casualty insurance maintained by the District with respect to the Enterprise to the extent such proceeds are not promptly applied by the District either to the repair or replacement of the Enterprise or to the prepayment of the Certificates are not Revenues and are not subject to the lien of the Installment Purchase Contract.

“Treasurer” means Director of Finance and Business Services of the District.

“Trust Agreement” means that Trust Agreement, dated as of July 1, 2019, among the District, the Corporation and the Trustee.

“Trustee” means Zions Bancorporation, National Association, or such other Trustee designated pursuant to the Trust Agreement.

“2008 Assigned Felton Loan Contract” means that loan contract, No. E51065, dated April 6, 1995 as amended by Amendment A-1 dated May 25, 1995, Amendment A-2 dated October 24, 1995, Amendment A-3 dated April 25, 1997, and Amendment A-4 dated January 31, 2002, by and between the State of California Department of Water Resources and the California-American Water Company and issued under the California Safe Drinking Water Bond Law of 1988, as such loan contract was assigned to the District pursuant to an Agreement for Assignment of Loan dated as of September 19, 2008, by and between the California-American Water Company and the District, all as such loan contract was originally executed and as it may from time to time be amended or supplemented.

“2012 Water Revenue Refunding Bonds” means the District’s 2012 Water Revenue Refunding Bonds (Bank Qualified) issued pursuant to that Refunding Bond Agreement, dated as of March 1, 2012, by and between the District and the Bank of Nevada, as such agreement was originally executed and as it may from time to time be amended or supplemented.

“2016 Solar Government Obligation Contract” means the Government Obligation Contract dated as of November 15, 2016, by and between the District and NBH Bank, as such contract was originally executed and as it may from time to time be amended or supplemented.

“2018 Installment Purchase Contract” means the Installment Purchase Contract dated as of December 1, 2018, by and between the District and Capital One Public Funding, LLC, as such agreement was originally executed and as it may from time to time be amended or supplemented.

## ARTICLE II ACQUISITION OF THE PROJECT

### Section 2.01. Acquisition of the Project.

The Corporation agrees to use or permit the use of the proceeds of the Certificates for the payment, as herein provided, of the costs and expenses of the Acquisition of the Project and the expenses incidental thereto (including reimbursement to the District for any such costs or expenses paid by it for the account of the Corporation, including costs and expenses paid by the District prior to the date hereof). To provide moneys for the Acquisition of the Project, the Corporation agrees to sell and hereby sells the Project to the District, and the District agrees to purchase and hereby purchases the Project from the Corporation.

The District may change the specifications of the Project, so long as such change does not substantially alter the nature of the Project; provided, however, that the District and the Corporation, in their sole discretion, may designate an Alternate Project. In the event an Alternate Project is designated, the District shall certify in writing to the Trustee, the Insurer and the Corporation that Acquisition Costs shall not materially increase as a result from such change. In the event Acquisition Costs shall materially increase as a result of the designation of an Alternate Project, prior to designating such Alternate Project the District shall either deposit in the Acquisition Fund an amount sufficient to pay such increase, or shall certify in writing to the Trustee, the Insurer and the Corporation that funds sufficient to pay such increase in Acquisition Costs are otherwise available to the District.

Payment of the costs and expenses of the Acquisition of the Project, including incidental expenses, shall be from money deposited as hereinafter provided with the District, by the District as the agent of the Corporation for the account of the Corporation.

The Corporation agrees, upon the effective date hereof, to cause to be deposited with the Trustee the amounts set forth in the Trust Agreement. In the event the money so deposited as first above provided is insufficient to pay all the costs of the Acquisition of the Project, the Corporation shall have no obligation whatsoever to use or provide any funds for the foregoing purposes other than the proceeds of the Certificates.

Upon the Closing Date, all of the Corporation’s remaining interest in the Project, if any, shall be transferred to and vest in the District, without the necessity of any additional document or transfer. Nothing herein shall require the Corporation to perform any obligations of any purchaser with respect to any contract or purchase order with respect to the Project.

In the event the Corporation fails to observe or perform any agreement, condition, covenant or term contained herein required to be observed or performed by it, the District may institute such action or proceeding against the Corporation as the District may deem necessary to compel the observance or performance of such agreement, condition, covenant or term, or to recover damages for the nonobservance or nonperformance thereof; provided, however, that the District shall have no right to terminate this Installment Purchase Contract as a remedy to such failures. The District may, at its own cost and expense and in its own name or in the name of the Corporation, prosecute or defend any action or proceeding or take any other action involving third persons which the District deems reasonably necessary in order to protect or secure its rights hereunder, and in such event the Corporation agrees to cooperate fully with the District and to take all action necessary to effect the substitution of the District for the Corporation in any action or proceeding if the District shall so request.

Section 2.02. Indemnification and Expenses of Corporation.

To the extent permitted by law, the District does hereby assume liability for, and agrees to defend, indemnify, protect, save and keep harmless the Corporation and its directors, officers and employees and its successors and assigns from and against any and all liabilities, obligations, losses, damages (including consequential damages incurred by others), taxes and impositions, penalties, fines, claims, actions, suits, costs and expenses and disbursements (including legal fees and expenses) of whatsoever kind and nature imposed on, asserted against or incurred or suffered by the Corporation or its directors, officers or employees or its successors and assigns in any way relating to or arising out of the purchase or Acquisition of the Project or the District's use thereof, the execution and delivery or performance hereof or the assignment hereof (except with respect to any representations and warranties made by the Corporation therewith) or the Trust Agreement or any other agreements related thereto, or the enforcement of any of the terms thereof.

Section 2.03. District to Act as Agent; Corporation not Liable.

The Corporation hereby irrevocably appoints the District as its agent in connection with the Acquisition of the Project. The District, as the agent of the Corporation, shall cause such Acquisition of the Project to be completed as soon as is reasonably practicable and in accordance with this Installment Purchase Contract and the Trust Agreement and any applicable requirements of governmental authorities and law. The Corporation and its directors, officers and employees shall not be liable to the District or to any other party whomsoever for any death, injury or damage that may result to any person or property by or from any cause whatsoever in, on, or about or relating to the Project, and in no event shall the Corporation be liable for any incidental, indirect, special or consequential damage in connection herewith or arising hereunder.

Section 2.04. Disclaimer of the Corporation.

The District acknowledges and agrees that the Corporation makes no representation or warranty, express or implied, as to the Project, except as expressly set forth in this Installment Purchase Contract. The District acknowledges that all risks relating to the Project or the transactions contemplated hereby or by the Assignment Agreement or the Trust Agreement, are to

be borne by the District, and the benefits of any and all implied warranties and representations of the Corporation are hereby waived by the District.

ARTICLE III  
INSTALLMENT PAYMENTS, REVENUES AND ACCOUNTS

Section 3.01. Payment of the Installment Payments.

The total principal amount of the Installment Payments owed and to be paid by the District to the Corporation hereunder for the Acquisition of the Project is \$\_\_\_\_\_, plus interest thereon and (A) the amounts, if any, required to be paid hereunder to replenish the Reserve Fund, (B) all amounts, if any, required to be paid by the Corporation or the District under the Trust Agreement, and (C) amounts owed to the Insurance for draws on the Insurance Policy. The Installment Payments shall, subject to any rights of prepayment of the District provided in Article VI, be due in installments in the amounts and on the dates described in Exhibit B attached hereto and in Section 4.01 hereof.

Each Installment Payment shall be payable to the Corporation in accordance with the terms hereof and at the times required by Section 4.01 hereof in lawful money of the United States of America. In the event the District fails to make any of the payments required to be made by it under this Section 3.01, such payment shall continue as an obligation of the District until such amount shall have been fully paid and the District agrees to pay the same with the stated interest thereon at the rate set forth in Exhibit B hereto. In the event an Installment Payment is insufficient to make the payments of principal and interest represented by the Certificates on the next succeeding Interest Payment Date, due to investment losses incurred while on deposit in the Installment Payment Fund or for any other reason, the District shall immediately pay to the Trustee upon notice therefrom additional amounts to cure such insufficiency.

The obligation of the District to make the Installment Payments is absolute and unconditional, whether or not the Project shall be acquired, and until such time as all Installment Payments shall have been fully paid and the Certificates are no longer Outstanding (or provision for the payment thereof shall have been made pursuant to Article IX of the Trust Agreement), the District will not, under any circumstances, discontinue, abate or suspend any Installment Payments required to be made by it under this Section 3.01 when due, whether or not the Enterprise or any part thereof is operating or operable or has been completed, or whether or not the Enterprise is condemned, damaged, destroyed or seized or its use is suspended, interfered with, reduced or curtailed or terminated in whole or in part, and such payments shall not be subject to reduction whether by offset, counterclaim, defense, recoupment, abatement, suspension, deferment or otherwise and shall not be conditional upon the performance or nonperformance by any party of any agreement or covenant contained herein for any cause whatsoever.

Section 3.02. Interest Component of the Installment Payments.

The Installment Payments shall bear interest from the Closing Date until the payment of the principal thereof and the prepayment premiums, if any, thereon, shall have been made or provided for in accordance with the provisions of Article IX of the Trust Agreement,



whether at maturity, upon prepayment or otherwise. Interest accrued on the Installment Payments from the date of the Certificates and from each Interest Payment Date to, but not including, the next succeeding Interest Payment Date shall be paid on each such succeeding Interest Payment Date and shall be computed on the basis of a year of 360 days and twelve 30-day months.

Section 3.03. Establishment of Accounts.

The funds and accounts and flow of funds set forth in this Article III are hereby established and shall control to the extent inconsistent with any other terms of this Installment Purchase Contract or the Trust Agreement.

Section 3.04. Pledge of Net Revenues and Other Funds; Revenue Fund.

The District hereby irrevocably pledges all of the Net Revenues to the punctual payment of the Installment Payments and such Net Revenues, except as otherwise permitted herein, shall not be used for any other purpose while any of the Certificates remain outstanding. This pledge shall, subject to Section 7.02 of the Trust Agreement, constitute a first lien on the Net Revenues for the payment of the Installment Payments and payments of all Parity Obligations in accordance with the terms hereof and thereof.

All of the Revenues, together with any interest earned thereon, shall, so long as any Certificates shall be Outstanding under the Trust Agreement, be deposited with the Treasurer as received by the District in the Revenue Fund, which fund the District hereby covenants and agrees to maintain with the Treasurer so long as any Certificates shall be Outstanding under the Trust Agreement.

Section 3.05. Receipt and Deposit of Revenues.

The District covenants and agrees that all Revenues, when and as received, will be received and held by the District in trust hereunder and will be deposited by the District with the Treasurer in the Revenue Fund and will be accounted for through and held in trust in the Revenue Fund; provided, that the District may withdraw such amounts in the Revenue Fund as may be necessary to make refunds for amounts paid in advance for services provided by the Enterprise, which such service was not thereafter made available or provided. All Net Revenues, whether held by the District or deposited with the Treasurer or the Trustee, shall nevertheless be disbursed, allocated and applied solely to the uses and purposes hereinafter in this Article III set forth, and shall be accounted for separately and apart from all other money, funds, accounts or other resources of the District.

Section 3.06. Establishment and Maintenance of Accounts for Revenues; Use and Withdrawal of Revenues.

All Revenues in the Revenue Fund shall be set aside by the Treasurer or deposited by the Treasurer with the Trustee, or the trustee or fiscal agent with respect to Parity Obligations, as the case may be, as follows and in the following order of priority.

(1) Maintenance and Operation Costs. In order to carry out and effectuate the pledge and lien contained herein, the District agrees and covenants to pay all Maintenance and

Operation Costs of the Enterprise (including amounts reasonably required to be set aside in contingency reserves for Maintenance and Operation Costs of the Enterprise, the payment of which is not then immediately required) from the Revenue Fund as they become due and payable. Pursuant to Section 5.07 hereof, the District shall annually prepare a budget for Maintenance and Operation Costs.

(2) Debt Service Payments. The Installment Payments, and of all other Parity Obligations, shall be paid in accordance with the terms hereof and the Trust Agreement, and of such Parity Obligations, without preference or priority, and in the event of any insufficiency of such moneys, ratably without any discrimination or preference.

(3) Reserve Funds. (A) if the balance in the Reserve Fund is less than the Reserve Requirement, the notice of which deficiency shall have been given by the Trustee to the District, or (B) if the balance in a bond reserve fund established for any Parity Obligations is less than the bond reserve requirement established for such Parity Obligations, the notice of which deficiency shall have been given to the District, or (C) if the Certificate Reserve Policy or any reserve surety bond for any Parity Obligations has been drawn upon to make delinquent payments, the notice of which deficiency shall have been given to the District, the deficiency shall be restored by transfers of moneys from the Revenue Fund to the Trustee for deposit in the Reserve Fund and for deposit in the bond reserve fund established for such Parity Obligations, in accordance with the terms hereof and of such Parity Obligations, without preference or priority, and in the event of any insufficiency of such moneys, ratably without any discrimination or preference.

(4) General Expenditures. All Revenues remaining in the Revenue Fund on February 15 and August 15 of each year, after withdrawing all of the sums required to be withdrawn therefrom by the Treasurer by the provisions of Sections 3.06 (1), (2) and (3) hereof, or in connection with any Parity Obligation may be withdrawn by the Treasurer for expenditure for any lawful purpose of the District.

Section 3.07. Reserved.

Section 3.08. Certain Necessary Transfers.

The parties hereto acknowledge that although all Parity Obligations are secured equally and ratably by Net Revenues, debt service and other funds with respect to Parity Obligations other than the Certificates may be held by the Trustee or by trustees other than the Trustee under documents and agreements other than the Trust Agreement and the Installment Purchase Contract, and the Installment Purchase Contract and the Trust Agreement impose no obligations upon the Trustee with respect to such other obligations. The Treasurer is hereby authorized to make such transfers from the Revenue Fund necessary to effectuate such Parity Obligations' parity claim on the Net Revenues contemplated hereby.

Section 3.09. Additional Payments.

The District agrees unconditionally that it will pay or reimburse the Insurer on demand any and all reasonable charges, fees, costs, losses, liabilities and expenses that the Insurer may pay or incur, including, but not limited to, fees and expenses of the Insurer's agents, attorneys,

accountants, consultants, appraisers and auditors and reasonable costs of investigations, in connection with the administration (including waivers and consents, if any), enforcement, defense, exercise or preservation of any rights and remedies in respect of the Trust agreement or this Installment Purchase Contract (the “Administrative Costs”). For purposes of the foregoing, costs and expenses shall include a reasonable allocation of compensation and overhead attributable to the time of employees of the Insurer spent in connection with the actions described in the preceding sentence. The District agrees that failure to pay any Administrative Costs on a timely basis will result in the accrual of interest on the unpaid amount at the Late Payment Rate, compounded semi-annually, from the date that payment is first due to the Insurer until the date the Insurer is paid in full.

Notwithstanding anything herein to the contrary, the District agrees to pay to the Insurer (i) a sum equal to the total of all amounts paid by the Insurer under the Insurance Policy (the “Policy Payment”); and (ii) interest on such Policy Payments from the date paid by the Insurer until payment thereof in full by the District, payable to the Insurer at the Late Payment Rate per annum (collectively, the “Reimbursement Amounts”) compounded semi-annually. The District hereby covenants and agrees that the Reimbursement Amounts are secured by a lien on and pledge of the Net Revenues and payable from such Net Revenues on a parity with the Installment Payments.

#### ARTICLE IV DEPOSITS; ADDITIONAL CONTRACTS AND PARITY OBLIGATIONS

##### Section 4.01. Deposits to Installment Payment Fund.

On the Due Date next preceding each Interest Payment Date, the District shall deposit with the Trustee, for deposit in the Installment Payment Fund, from amounts legally available therefor on deposit in the Revenue Fund, a sum equal to the amount of interest becoming due hereunder on the next Interest Payment Date plus the amount of principal becoming due hereunder on such Interest Payment Date.

The District shall be entitled to receive as a credit against Installment Payments an amount equal to the amount of any balance contained in the Installment Payment Fund prior to the Due Date for such Installment Payments (excluding money designated for the prepayment of Certificates).

All money in the Installment Payment Fund shall be used and withdrawn by the Trustee in accordance with the Trust Agreement.

##### Section 4.02. Reserve Fund.

If amounts on deposit in the Reserve Fund shall, at any time, be less than the Reserve Requirement, such deficiency shall be made up by the District from the first available Net Revenues after required payment of Installment Payments over a twelve (12) month period, in twelve (12) substantially equal payments.

No deposit need be made in the Reserve Fund if the amount available and contained therein (valued from time to time in accordance with the Trust Agreement) is at least equal to the Reserve Requirement.

Section 4.03. Parity Obligations.

(a) So long as any Certificates are Outstanding, the District shall not issue or incur any obligations payable from Net Revenues or the Revenue Fund senior or superior to the Installment Payments. The District may at any time issue Parity Obligations payable from Net Revenues on a parity with the Installment Payments to provide financing for the Enterprise in such principal amount as shall be determined by the District. The District may issue or incur any such Parity Obligations subject to the following specific conditions which are hereby made conditions precedent to the issuance and delivery of such Parity Obligations:

(1) No Event of Default shall have occurred and be continuing as of the date of issuance or incurrence thereof;

(2) Either (i) the Net Revenues, calculated in accordance with Generally Accepted Accounting Principles, as shown by the books of the District for the latest Fiscal Year for which audited financial information is available or as shown by the books of the District for any more recent 12-month period selected by the District in its sole discretion, in either case verified by a certificate or opinion of an Independent Certified Public Accountant, plus, at the option of the District, any or all of the items described in the following subsection (3), at least equal 125% of the amount of Maximum Annual Debt Service; or

(ii) the average annual Net Revenues for the prior 36-month period, calculated in accordance with Generally Accepted Accounting Principles, as shown by the books of the District for the three prior Fiscal Years for which audited financial information is available or as shown by the books of the District for any more recent 36-month period selected by the District in its sole discretion, verified by a certificate or opinion of an Independent Certified Public Accountant, plus, at the option of the District, any or all of the items described in the following subsection (3), at least equal 125% of the amount of Maximum Annual Debt Service;

(3) At the option of the District, there may be added to the Net Revenues for purposes of meeting the requirements of the foregoing subsection (2) an allowance for Net Revenues arising from either of the following:

(i) An allowance for Net Revenues from any improvements to the Enterprise to be made with the proceeds of such Parity Obligations and also for Net Revenues from any such improvements which have been made from moneys from any source but in any case which, during all or any part of the period described in the foregoing subsection (2), were not in service, all in an amount equal to 90% of the estimated additional average annual Net Revenues to be derived from such improvements for the first 36 month period in which each improvement is respectively to be in operation, all as shown by the certificate or opinion of an Independent Engineer.

(ii) An allowance for Net Revenues arising from any increase in the charges made for service from the Enterprise which has been adopted prior to the incurring of such Parity Obligations but which, during all or any part of the period described in the foregoing subsection (2), was not in effect, in an amount equal to the total amount by which the Net Revenues would have been increased if such increase in charges had been in effect during the whole of such period, all as shown by the certificate or opinion of an Independent Certified Public Accountant.

The provisions of subsection (2) and (3) of this Section shall not apply to any Parity Obligations if (i) all of the proceeds of which (other than proceeds applied to pay costs of issuing such Parity Obligations) shall be deposited in an irrevocable escrow held in cash or invested in Federal Securities for the purpose of paying the principal of and interest and premium (if any) on any Outstanding Certificates or on any outstanding Parity Obligations, (ii) at the time of the incurring of such Parity Obligations, the District certifies in writing that Maximum Annual Debt Service on the refunding Parity Obligations will not exceed Maximum Annual Debt Service on the Outstanding Certificates or Parity Obligations being refunded, and (iii) the final maturity of the refunding Parity Obligations is not later than the final maturity of the refunded Certificates or Parity Obligations.

The District may at any time execute contracts or issue bonds or other indebtedness payable from Net Revenues or the Revenue Fund payable on a subordinated basis to the payment of the Installment Payments.

(b) In order to maintain the parity relationship of the Installment Payments to all Parity Obligations permitted hereunder, the District covenants that all payments in the nature of principal and interest with respect to any Parity Obligations, except with respect to Governmental Loans, will be structured to occur semi-annually on the Due Dates and in each year as such payments are due with respect to the Installment Payments, and reserve account replenishment with respect to any Parity Obligations, except with respect to Governmental Loans, will be structured to occur monthly, and to otherwise structure the terms of such Parity Obligations to ensure that they are in all respects payable on a parity with the Installment Payments and not prior thereto; provided that the District shall not make a payment on such Governmental Loan to the extent it would have the effect of causing the District to fail to pay Installment Payments on a timely basis. In such event, the District shall make Installment Payments and payments on such Governmental Loan on a pro rata basis.

## ARTICLE V REPRESENTATIONS, COVENANTS AND WARRANTIES

### Section 5.01. Compliance with Installment Purchase Contract.

The District will punctually pay the Installment Payments in strict conformity with the terms hereof, and will faithfully observe and perform all the agreements, conditions, covenants and terms contained herein required to be observed and performed by it, and will not terminate this Installment Purchase Contract for any cause whatsoever, including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration,

destruction of or damage to the Project, condemnation of the Project by any governmental entity, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of California or any political subdivision of either or any failure of the Corporation to observe or perform any agreement, condition, covenant or term required to be observed and performed by it contained herein, whether express or implied, or any duty, liability or obligation arising out of or connected with this Installment Purchase Contract.

The District will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Trust Agreement required to be observed and performed by it, and it is expressly understood and agreed by and among the parties to this Installment Purchase Contract and the Trust Agreement that each of the agreements, conditions, covenants and terms contained in the Trust Agreement and this Installment Purchase Contract is an essential and material term of the purchase of and any payment for the Project by the District.

The District will faithfully observe and perform all the agreements, conditions, covenants and terms required to be observed and performed by it pursuant to all outstanding Parity Obligations as such may from time to time be amended.

Section 5.02. Against Encumbrances.

The District hereby covenants that there is no pledge of or lien on Net Revenues senior to the pledge and lien securing the Installment Payments. The District will not make any further pledge of or place any lien on the Net Revenues, provided that the District may at any time, or from time to time, pledge or encumber the Net Revenues in connection with the issuance or execution of Parity Obligations or other obligations permitted by Section 4.03 hereof, or subordinate to the pledge of Net Revenues herein.

Section 5.03. Against Sale or Other Disposition of Property.

The District will not sell, lease, encumber or otherwise dispose of the Enterprise or any part thereof in excess of one-half of one percent of the book value of the Enterprise in any Fiscal Year, unless a Treasurer certifies that such sale, lease, encumbrance or disposition will not materially adversely affect the operation of the Enterprise or the Net Revenues; provided however, any real or personal property which has become non-operative or which is not needed for the efficient and proper operation of the Enterprise, or any material or equipment which has become worn out, may be sold or exchanged at not less than the fair market value thereof and the proceeds (if any) of such sale or exchange shall be deposited in the Revenue Fund.

The District will not enter into any agreement or lease which would impair the ability of the District to meet the covenant set forth in Section 5.14 hereof or which would otherwise impair the rights of the Certificate Owners or the operation of the Enterprise.

Section 5.04. Against Competitive Facilities.

The District will not, to the extent permitted by law, acquire, maintain or operate and will not, to the extent permitted by law and its current contractual rights and obligations and within the reasonable scope of its powers, permit any other public or private agency, corporation,

district or political subdivision or any person whomsoever to acquire, maintain or operate within the District any utility system competitive with the Enterprise.

Section 5.05. Tax Covenants.

The District shall not take any action or permit to be taken any action within its control which would cause or which, with the passage of time if not cured would cause, the interest with respect to the Certificates to become includable in gross income for federal income tax purposes. To that end, the District hereby makes the following specific covenants:

(a) The District hereby covenants that it shall not make or permit any use of the proceeds of the Certificates that may cause the Certificates (as defined in the Trust Agreement) to be “arbitrage bonds” within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended.

(b) The District covenants that the proceeds of the Certificates will not be used as to cause the proceeds on the Certificates to satisfy the private business tests of Section 141(b) of the Code or the private loan financing test of Section 141(c) of the Code.

(c) The District covenants not to take any action or permit or suffer any action to be taken if the result of the same would be to cause the Certificates to be “federally guaranteed” within the meaning of Section 149(b) of the Code.

Section 5.06. Prompt Acquisition.

The District will Acquire the Project with all practicable dispatch and such Acquisition will be made in an expeditious manner and in conformity with law so as to complete the same as soon as possible.

Section 5.07. Maintenance and Operation of the Enterprise; Budgets.

The District will maintain and preserve the Enterprise in good repair and working order at all times and will operate the Enterprise in an efficient and economical manner and will pay all Maintenance and Operation Costs of the Enterprise as they become due and payable. On or before the first day of each Fiscal Year, the District will file with the Trustee a budget setting forth the estimated Maintenance and Operation Costs of the Enterprise for such Fiscal Year. The Trustee shall not be required to review, and shall not be deemed to have knowledge of, the contents of such budget, it being understood that the Trustee shall receive and hold such budget as repository for examination and copying by any Owner at such Owner’s expense.

Section 5.08. Payment of Claims.

The District will pay and discharge any and all lawful claims for labor, materials or supplies which, 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 the Trustee prior or superior to the lien of the Installment Payments or which might impair the security of the Installment Payments.

Section 5.09. 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 Enterprise and all other contracts affecting or involving the Enterprise to the extent that the District is a party thereto.

Section 5.10. Insurance

(a) The District will procure and maintain insurance on the Enterprise with commercial insurers or through participation in a joint powers insurance authority, in such amounts, with such deductibles and against such risks (including accident to or destruction of the Enterprise) as are usually insurable in connection with similar enterprises.

In the event of any damage to or destruction of the Enterprise caused by the perils covered by such insurance, the proceeds of such insurance shall be applied either (i) to the repair, reconstruction or replacement of the damaged or destroyed portion of the Enterprise or, (ii) if the repair, reconstruction or replacement of the damaged or destroyed portion of the Enterprise is not essential to the efficient operation of the Enterprise and the maintenance of Net Revenues, to prepay, on a pro rata basis across maturities, the Certificates and any outstanding Parity Obligations. The District shall cause such repair, reconstruction or replacement to begin promptly after such damage or destruction shall occur and to continue and to be properly completed as expeditiously as possible, and shall pay out of the proceeds of such insurance all costs and expenses in connection with such repair, reconstruction or replacement so that the same shall be completed and the Enterprise shall be free and clear of all liens and claims. If the proceeds received by reason of any such loss shall exceed the costs of such repair, reconstruction or replacement, the excess shall be applied to the prepayment of Installment Payments as provided in Article VI.

Alternatively, if the proceeds of such insurance are sufficient to enable the District to retire all outstanding Parity Obligations and the Certificates and all other amounts due hereunder and under the Trust Agreement, the District may elect not to repair, reconstruct or replace the damaged or destroyed portion of the Enterprise, and thereupon such proceeds shall be applied to the prepayment of the Installment Payments as provided in Article VI and to the payment of all other amounts due hereunder and under the Trust Agreement, and as otherwise required by the documents pursuant to which such Parity Obligations were issued.

(b) The District will procure and maintain commercial general liability insurance covering claims against the District for bodily injury or death, or damage to property, occasioned by reason of the ownership or operation of the Enterprise, such insurance to afford protection in such amounts and against such risks as are usually covered in connection with similar enterprises.

(c) The District will procure and maintain workers' compensation insurance against liability for compensation under the Workers' Compensation Insurance and Safety Act of California, or any act hereafter enacted as an amendment or supplement or in lieu thereof, such insurance to cover all persons employed in connection with the Enterprise.



(d) All policies of insurance required to be maintained herein shall provide that the Trustee shall be given thirty (30) days' written notice of any intended cancellation thereof or reduction of coverage provided thereby, provided, however, the Trustee shall not be responsible for the sufficiency of any insurance herein required.

(e) In lieu of obtaining insurance coverage as required by this Section, such coverage may be maintained by the District in the form of self-insurance so long as the District certifies to the Trustee, the Insurer and the Corporation that (a) the District has segregated amounts in a special insurance reserve meeting the requirements of this Section; (b) an Insurance Consultant certifies annually, on or before the first day of each Fiscal Year in which self-insurance is maintained, in writing to the Trustee and the Corporation that the District's general insurance reserves are actuarially sound and are adequate to provide the necessary coverage and the Trustee may conclusively rely thereon; and (c) such reserves are held in a separate trust fund by an independent trustee. Any statements of self-insurance shall be delivered to the Trustee. The District shall pay or cause to be paid when due the premiums for all insurance policies required hereby.

#### Section 5.11. Books and Accounts; Financial Statements

(a) The District will keep proper books of record and accounts of the Enterprise, separate from all other records and accounts of the District, in which complete and correct entries shall be made of all transactions relating to the Enterprise. Such books of record and accounts shall at all times during business hours be subject to the inspection of the Trustee, the Insurer or of the Owners of not less than ten percent (10%) of the principal amount of the Certificates then Outstanding or their representatives authorized in writing.

(b) The District will prepare and file with the Trustee and the Insurer annually within two hundred seventy (270) days after the close of each Fiscal Year so long as any of the Certificates are Outstanding--

(1) an audited financial statement for the District (prepared in accordance with Generally Accepted Accounting Principles) for the preceding Fiscal Year, together with an accountant's report thereon and along with a certificate of the District to the effect that no Event of Default has occurred, or if an Event of Default has occurred, specifying the nature thereof and, if the District has a right to cure pursuant to Section 7.01 hereof, stating in reasonable detail the measures, if any, being undertaken by the District to cure such Event of Default; and

(2) a certified statement that all insurance required by this Agreement to be carried by the District with respect to the Enterprise is in full force and effect and complies with the terms hereof.

(c) The District will prepare annually not more than two hundred seventy (270) days after the close of each Fiscal Year a summary statement showing the amount of the Revenues and the disbursements from the Revenues, and the Maintenance and Operation Costs, in reasonable

detail, for the preceding Fiscal Year, and a general statement of the financial and physical condition of the Enterprise. The District will furnish a copy of such summary statement to the Corporation, the Trustee, the Insurer and any Owner upon request.

(d) The Trustee shall not be required to review or inspect, and shall not be deemed to have notice of, the contents of the books and records of the District, any financial statement or statement of insurance coverage delivered to the Trustee under this Section 5.11, it being expressly understood that the Trustee shall only receive and hold such documents as repository for examination and copying by any Owner at such Owner's expense during business hours on Business Days.

Section 5.12. Protection of Security and Rights of Corporation; Amendment.

The District will preserve and protect the security and the rights of the Corporation to the Installment Payments hereunder and will warrant and defend such rights against all claims and demands of all persons. In connection therewith, the Corporation and the District shall not amend this Installment Purchase Contract without first obtaining an opinion of nationally recognized bond counsel to the effect that such amendment will not materially adversely affect the security of the Certificate Owners.

Section 5.13. Payment of Taxes and Compliance with Governmental Regulations.

The District will pay and discharge all taxes, assessments and other governmental charges, if any, which may hereafter be lawfully imposed upon the Enterprise or any part thereof or upon the 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 Enterprise or any part thereof, but the District shall not be required to comply with any regulations or requirements so long as the validity or application thereof shall be contested in good faith.

Section 5.14. Amount of Rates and Charges.

(a) The District will, at all times while any of the Certificates remain Outstanding, fix, prescribe and collect rates, fees and charges in connection with the Enterprise so as to yield Revenues at least sufficient, after making reasonable allowances for contingencies and errors in the estimates, to pay the following amounts in the order below set forth:

- (1) All Maintenance and Operation Costs of the Enterprise;
- (2) The Installment Payments and all payments (including payments of interest and under reimbursement agreements) with respect to

related Parity Obligations issued or incurred after the date hereof as they become due and payable;

- (3) Amounts necessary to bring the amount of funds in the Reserve Fund up to the Reserve Requirement within two years of a draw thereon; and
- (4) All payments required to meet any other obligations of the District which are charges, liens, encumbrances upon, or which are otherwise payable from the Revenues during such Fiscal Year.

(b) Furthermore, the District shall fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Enterprise during each Fiscal Year which are sufficient to yield estimated Net Revenues which are at least equal 125% of the aggregate amount of the Installment Payments, and principal of and interest on any Parity Obligations issued or incurred before or after the date hereof payable from Net Revenues coming due and payable during such Fiscal Year. The District may make adjustments, from time to time, in its rates, fees and charges as it deems necessary, but shall not reduce its rates, fees and charges below those in effect unless the Net Revenues resulting from such reduced rates, fees and charges shall at all times be sufficient to meet the requirements set forth in this paragraph.

(c) So long as the District has complied with its obligations set forth in Section 5.14(a) and Section 5.14(b) above, the failure of Net Revenues to meet the threshold set forth in Section 5.14(b) above at the end of a Fiscal Year shall not constitute a default or an Event of Default so long as the District has complied with Section 5.14(a) and Section 5.14(b) above at the commencement of the succeeding Fiscal Year.

#### Section 5.15. Operation of Enterprise; Collection of Rates and Charges.

The District will, so long as the Certificates are Outstanding, continue to operate the Enterprise and shall have in effect at all times, except as otherwise provided by law, rules and regulations requiring all users of the Enterprise provided by the District that is provided or made available to pay the rates, fees and charges applicable to the Enterprise provided or made available to such users, and providing for the billing thereof and for a due date and a delinquency date for each bill. In each case where such bill remains unpaid in whole or in part after such bill becomes delinquent, the District, in accordance with law, may refuse to provide or make available the services provided by the Enterprise to such premises until all delinquent rates, fees and charges and penalties have been paid in full.

Except in connection with the receipt of federal or State funding, or as required by law or as a condition to the acquisition or operation of the Project or Enterprise, the District will not permit any part of the Enterprise, or any facility thereof, to be used, or taken advantage of, free of charge by any person, firm or corporation, or by any public agency (including the United States of America, the State of California and any public corporation, political subdivision, city, county, district or agency of any thereof), excepting only that the District may without charge use the services and facilities of the Enterprise.

Section 5.16. Eminent Domain Proceeds.

If all or any part of the Enterprise shall be taken by eminent domain proceedings, the Net Proceeds thereof shall be applied as follows:

(a) If (1) the District prepares a 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 Enterprise proposed to be acquired by the District from any Net Proceeds, and (iii) an estimate of the additional annual Net Revenues to be derived from such additions, betterments, extensions or improvements, and (2) on the basis of such certificate, the District 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 of such additions, betterments, extensions or improvements substantially in accordance with such report and such Net Proceeds shall be applied for the payment of the costs of such acquisition, and any balance of such Net Proceeds not required by the District for such purpose shall be applied to prepay the Installment Payments pursuant to Section 6.01(a) hereof, and any Parity Obligations, on a pro rata basis in the manner provided herein and in the instruments authorizing such Parity Obligations.

(b) If the foregoing conditions are not met, then such Net Proceeds shall be applied to the prepayment of Installment Payments as provided in Article VI hereof.

Section 5.17. Further Assurances.

The District will adopt, deliver, execute and make any and all further assurances, instruments and resolutions as may be reasonably necessary or proper to carry out the intention or to facilitate the performance hereof and for the better assuring and confirming unto the Corporation of the rights and benefits provided to it herein.

Section 5.18. Release and Indemnification Covenants.

The District shall and hereby agrees to indemnify and save the Trustee and the Corporation, their officers, directors, agents, employees, successors or assigns harmless from and against all claims, losses and damages, including legal fees and expenses, arising out of (i) the use, maintenance, condition or management of, or from any work or thing done on, the Project by the District, (ii) any breach or default on the part of the District in the performance of any of the District's obligations under the Installment Purchase Contract or the Trust Agreement, (iii) any act of negligence of the District or of any of its contractors, servants, employees or licensees with respect to the Project, (iv) any act of negligence of any assignee or sublessee of the District, or of any agents, contractors, servants, employees or licensees of the assignee or sublessee of the District with respect to the Project, or (v) the Acquisition of the Project or authorization of payment of the costs of the Acquisition of the Project, to the extent permitted by law. Indemnification for any tort mentioned in this Section shall exclude those arising from the willful misconduct or negligence under the Trust Agreement by the Trustee, and the Corporation, their officers and employees. The

District further covenants and agrees to indemnify and save the Trustee and the Corporation harmless against any claim, loss, expense, advance, and liabilities which they may incur arising out of or in the exercise and performance of their powers and duties under the Trust Agreement and the Installment Purchase Contract, including the costs and expenses (including attorneys' fees and disbursements) of defending against any claim of liability or enforcing any remedies, and which are not due to their negligence or willful misconduct. The District further covenants and agrees to advance to the Trustee and the Corporation the amounts requested as the costs and expenses of such defense. Any and all special obligations of the District under this Section shall be and remain valid and binding special obligations of the District notwithstanding the payment in full of the Installment Payments and the termination of this Installment Purchase Contract or the removal or resignation of the Trustee pursuant to the Trust Agreement.

Section 5.19. Further Representations, Covenants and Warranties of the District.

The District represents, covenants and warrants to the Corporation and the Insurer as follows:

(a) The District is a duly organized and validly existing county water agency of the State of California.

(b) The Constitution and the laws of the State of California authorize the District to enter into the Installment Purchase Contract and the Trust Agreement and to enter into the transactions contemplated thereby and to carry out its obligations under each of the aforesaid agreements, and the District has duly authorized and executed each of the aforesaid agreements in accordance with the laws of the State of California.

(c) Neither the execution and delivery of the Installment Purchase Contract or the Trust Agreement nor the fulfillment of or compliance with the terms and conditions hereof or thereof, nor the consummation of the transactions contemplated hereby or thereby, conflicts with or 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 either 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.

(d) The District has duly authorized and executed this Installment Purchase Contract and the Trust Agreement in accordance with the laws of the State of California.

(e) The District is empowered to set rates and charges for services provided by the Enterprise provided to the users of the Enterprise without review or approval by any state or local governmental agency.

(f) This Installment Purchase Contract and the pledge of Net Revenues is a first lien and pledge on Net Revenues.

Section 5.20. Representations, Covenants and Warranties of the Corporation.

The Corporation represents, covenants and warrants to the District and the Insurer as follows:

(a) The Corporation is a non-profit, public benefit corporation duly organized, existing and in good standing under and by virtue of the laws of the State of California; has power to enter into the Installment Purchase Contract, the Assignment Agreement and the Trust Agreement; is possessed of full power to own and hold real and personal property and to sell the same; and has duly authorized the execution and delivery of all of the aforesaid agreements.

(b) The Corporation will not pledge or encumber the Installment Payments or other amounts derived from its other rights under the Installment Purchase Contract, except as provided under the terms of the Installment Purchase Contract, the Assignment Agreement and the Trust Agreement.

(c) Neither the execution and delivery of the Installment Purchase Contract, the Assignment Agreement or the Trust Agreement, nor the fulfillment of or compliance with the terms and conditions hereof or thereof, nor the consummation of the transactions contemplated hereby or thereby, conflicts with or results in a breach of the terms, conditions or provisions of any restriction or any agreement or instrument to which the Corporation is now a party or by which the Corporation is bound, or constitutes a default under either 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 Corporation.

(d) Except as provided in the Installment Purchase Contract, the Trust Agreement and the Assignment Agreement, the Corporation will not assign the Installment Purchase Contract or its right to receive Installment Payments from the District, or its duties and obligations under the Installment Purchase Contract to any other person, firm or corporation.

Section 5.21. Continuing Disclosure.

The District hereby covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement of the District, dated as of the date hereof. Notwithstanding any other provision of this Installment Purchase Contract, failure of the District to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default; however, the Corporation may (and, at the request of any participating underwriter or the Owners of at least 25% aggregate principal amount of Outstanding Certificates, shall, after receiving indemnification to its satisfaction) or any Owner may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the District to comply with its obligations under this Section.

ARTICLE VI  
PREPAYMENT OF INSTALLMENT PAYMENTS

Section 6.01. Prepayment.

(a) The District may or shall, as the case may be, prepay on any date from the Net Proceeds of insurance or condemnation awards, as provided herein, all or any part, in integral multiples of \$5,000, of the principal amount of the unpaid Installment Payments in the inverse order of the times they are due at a prepayment price equal to the sum of the principal amount prepaid plus accrued and unpaid interest thereon to the date of prepayment of the corresponding Certificates to be prepaid, without premium.

(b) The Installment Payments shall not be subject to optional prepayment prior to September 1, 20\_\_\_. The Installment Payments shall be subject to optional prepayment in whole or in part in any integral multiple of \$5,000, on any date on or after September 1, 20\_\_\_, from any available source of funds, at the prepayment price equal to the principal amount of the Certificates to be prepaid from the proceeds of such prepayment pursuant to Section 4.01(b) of the Trust Agreement, together with accrued interest thereon to the prepayment date, without premium.

Except in connection with a security deposit as set forth in Section 6.03 hereof, the District shall be required to give the Trustee written notice of its intention to prepay any Installment Payment under this subsection (b) at least sixty (60) days prior to the proposed prepayment date, and shall transfer to the Trustee all amounts required for such prepayment (except in the case of a prepayment from the proceeds of refunding obligations), at least thirty (30), but not greater than sixty (60), days prior to the date fixed for such prepayment.

In the event that the Installment Payments shall have been prepaid by the District pursuant to subsection (a) or (b) above, the total amount of all future payments set forth in the schedule attached hereto as Exhibit B shall be reduced by the aggregate amount of such Installment Payment so prepaid, so that the remaining Scheduled Installment Payments shall be sufficient to pay principal of and interest with respect to the Outstanding Certificates. The District shall file a revised schedule of Installment Payments with the Trustee.

Notwithstanding any such prepayment, the District shall not be relieved of its obligations hereunder, including its obligations under Article III hereof, until the entire principal amount of the unpaid Installment Payments together with the interest accrued thereon, if any, and together with the ordinary and extraordinary fees, costs and expenses of the Trustee, shall have been fully paid and the Certificates are no longer Outstanding (or provision for payment thereof shall have been made pursuant to Article IX of the Trust Agreement and Section 6.03 hereof).

Section 6.02. Method of Prepayment.

Before making any prepayment pursuant to Section 6.01, the District shall, within five (5) days following the event permitting the exercise of such right to prepay or creating such obligation to prepay, give written notice to the Trustee describing such event and specifying the date on which the prepayment will be made, which date shall be not less than sixty (60) days from the date such notice is given.

Section 6.03. Security Deposit.

Notwithstanding any other provision of this Installment Purchase Contract, the District may secure the payment of all or a portion of Installment Payments by a deposit with the Trustee, as escrow holder under an escrow deposit and trust agreement as referenced in and in conformance with Article IX of the Trust Agreement, of either (i) cash in an amount which, together with available amounts on deposit in the Installment Payment Fund and the Reserve Fund, is sufficient to pay such unpaid Installment Payments, including the principal and interest components thereof, in accordance with the Installment Payment schedule set forth in Exhibit B attached hereto, or (ii) non-callable Federal Securities (as defined in the Trust Agreement) or pre-refunded non-callable municipal obligations rated “AAA” and “Aaa” by S&P and Moody’s, respectively, together with cash if required, in such amount as will, in the opinion of nationally-recognized bond counsel and of an independent certified public accountant (which opinion shall be addressed to the Trustee), together with interest to accrue thereon and, if required, all or a portion of moneys or non-callable Federal Securities then on deposit in the Installment Payment Fund and Reserve Fund, be fully sufficient to pay such unpaid Installment Payments on their payment dates so that such Installment Payments shall be defeased as provided for in Section 9.01 of the Trust Agreement and any amounts owed to the Insurer.

In the event of a deposit pursuant to this Section 6.03, and provided that all other amounts payable by the District hereunder have been paid in full, all obligations of the District under this Installment Purchase Contract shall cease and terminate, excepting only the obligation of the District to make, or cause to be made, all Installment Payments from the deposit made by District pursuant to this Section 6.03 and the obligation to pay amounts due the Trustee. Said deposit shall be deemed to be and shall constitute a special fund for the payment of Installment Payments in accordance with the provisions of this Installment Purchase Contract.

ARTICLE VII  
EVENTS OF DEFAULT AND REMEDIES

Section 7.01. Events of Default and Events of Mandatory Acceleration;  
Acceleration of Maturities.

If one or more of the following Events of Default shall happen:

(a) default shall be made in the due and punctual payment by the District of any Installment Payment when and as the same shall become due and payable;

(b) default shall be made by the District in the performance of any of the agreements or covenants contained herein or in the Trust Agreement required to be performed by it, and such default shall have continued for a period of sixty (60) days after the District shall have been given notice in writing of such default by the Insurer, the Corporation or the Trustee;

(c) 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; or

(d) an event of default shall have occurred with respect to any Parity Obligations;

then and in each and every such case during the continuance of such Event of Default the Corporation may, with the consent of the Insurer, so long as the Insurance Policy is in full force and effect and the Insurer has not failed to comply with its payment obligations under the Insurance Policy, and shall, at the direction of the Insurer, so long as the Insurance Policy is in full force and effect and the Insurer has not failed to comply with its payment obligations under the Insurance Policy, by notice in writing to the District declare the principal amount of the unpaid Installment Payments, and the accrued interest thereon to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable, anything contained herein to the contrary notwithstanding.

This provision, however, is subject to the condition that, except with respect to an Event of Default under subsection (c) above, if at any time after such principal amount of the unpaid Installment Payments and the accrued interest thereon shall have been so declared due and payable and before the acceleration date or the date of any judgment or decree for the payment of the money due shall have been obtained or entered, the District shall deposit with the Trustee a sum sufficient to pay such unpaid principal amount of the Installment Payments due prior to such date and the accrued interest thereon, with any interest due on such overdue installments, and the reasonable expenses of the Corporation and the Trustee, and any and all other defaults known to the Corporation (other than in the payment of such principal amount of the unpaid Installment Payments and the accrued interest thereon due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Corporation or provision deemed by the Corporation to be adequate shall have been made therefor, then and in every such case the Corporation, with the prior written consent of the Insurer, by written notice to the District, may rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon.

#### Section 7.02. Application of Funds Upon Acceleration.

All moneys and investments in the funds and accounts held hereunder and under the Trust Agreement (other than the Rebate Fund, if any) upon the date of the declaration of acceleration as provided in Section 7.01 and all Revenues thereafter received shall be applied as provided for in the Trust Agreement.

#### Section 7.03. Other Remedies of the Corporation.

The Corporation may, with the consent of the Insurer, so long as the Insurance Policy is in full force and effect and the Insurer has not failed to comply with its payment obligations under the Insurance Policy, and shall, at the direction of the Insurer, so long as the

Insurance Policy is in full force and effect and the Insurer has not failed to comply with its payment obligations under the Insurance Policy--

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

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

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

(d) by suit in equity, to seek the appointment of a receiver or other third party to operate the Enterprise and collect the Revenues.

Section 7.04. Non-Waiver.

Nothing in this Article VII or in any other provision hereof shall affect or impair the obligation of the District, which is absolute and unconditional, to pay the Installment Payments to the Corporation at the respective due dates or upon prepayment from the Revenues, or, except as expressly provided herein, shall affect or impair the right of the Corporation, which is also absolute and unconditional, to institute suit to enforce such payment by virtue of the contract embodied herein.

A waiver of any default or breach of duty or contract by the Corporation shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Corporation to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Corporation by applicable law or by this Article VII may be enforced and exercised from time to time and as often as shall be deemed expedient by the Corporation.

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

Section 7.05. Remedies Not Exclusive.

No remedy herein conferred upon or reserved to the Corporation is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing in law or in equity or by statute

or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by any other law.

Section 7.06. Rights of the Insurer.

Anything in this Installment Purchase Contract to the contrary notwithstanding, upon the occurrence and continuation of an Event of Default, the Insurer is entitled to control and direct the enforcement of all rights and remedies granted hereunder to the Corporation, the Owners or to the Trustee for the benefit of the Owners. The rights granted to the Insurer hereunder shall be deemed terminated and may not be exercisable by the Insurer during any period during which the Insurer is in default under the Insurance Policy.

ARTICLE VIII  
MISCELLANEOUS

Section 8.01. Liability of District Limited.

Notwithstanding anything contained herein, the District shall not be required to advance any moneys derived from any source of income other than the Net Revenues legally available therefor in the Revenue Fund or the Reserve Fund, and the other funds provided herein and in the Trust Agreement for the payment of the Installment Payments or for the performance of any agreements or covenants contained herein required to be performed by it. The District may, however, but shall not be required to, advance moneys for any such purpose so long as such moneys are derived from a source legally available for such purpose and may be legally used by the District for such purpose.

The obligation of the District to make the Installment Payments and the other amounts due hereunder is a special obligation of the District payable solely from the moneys legally available therefor hereunder and under the Trust Agreement, including but not limited to the Net Revenues and such other funds, but excluding the proceeds of any taxes, and does not constitute a debt or pledge of the faith and credit of the District or of the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction.

Section 8.02. Benefits of Installment Purchase Contract Limited to Parties.

Except as provided in Section 8.03, nothing contained herein, express or implied, is intended to give to any person other than the District or the Corporation any right, remedy or claim under or pursuant hereto, and any agreement or covenant required herein to be performed by or on behalf of the District or the Corporation shall be for the sole and exclusive benefit of the other party. The Insurer shall be a third party beneficiary of this Installment Purchase Contract.

Section 8.03. Successor Is Deemed Included In All References to Predecessor.

Whenever the District or the Corporation is named or referred to herein, such reference shall be deemed to include the successor to the powers, duties and functions that are presently vested in the District or the Corporation, and all agreements and covenants required

hereby to be performed by or on behalf of the District or the Corporation shall bind and inure to the benefit of the respective successors thereof whether so expressed or not. To the extent this Installment Purchase Contract confers upon or gives or grants to the Trustee any right, remedy or claim under or by reason of this Installment Purchase Contract, the Trustee is hereby explicitly recognized as being a third-party beneficiary hereunder and may enforce any such right, remedy or claim conferred, given or granted hereunder.

Section 8.04. Waiver of Personal Liability.

No board member, officer or employee of the District shall be individually or personally liable for the payment of the Installment Payments, but nothing contained herein shall relieve any board member, officer or employee of the District from the performance of any official duty provided by any applicable provisions of law or hereby.

Section 8.05. Article and Section Headings, Gender and References.

The headings or titles of the several articles and sections hereof and the table of contents appended hereto shall be solely for convenience of reference and shall not affect the meaning, construction or effect hereof, and words of any gender shall be deemed and construed to include all genders. All references herein to “Articles,” “Sections” and other subdivisions or clauses are to the corresponding articles, sections, subdivisions or clauses hereof; and the words “hereby,” “herein,” “hereof,” “hereto,” “herewith,” “hereunder” and other words of similar import refer to this Installment Purchase Contract as a whole and not to any particular article, section, subdivision or clause hereof.

Section 8.06. Partial Invalidity.

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

Section 8.07. Assignment.

This Installment Purchase Contract and any rights hereunder shall be assigned by the Corporation, in accordance with the Assignment Agreement, to the Trustee or any successor in interest to the Trustee, without the necessity of obtaining the prior consent of the District. The District may not assign any of its rights hereunder.

Section 8.08. Net Contract.

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

Section 8.09. California Law.

This Installment Purchase Contract shall be construed and governed in accordance with the laws of the State of California.

Section 8.10. Notices.

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

If to the District: San Lorenzo Valley Water District  
13060 CA-9  
Boulder Creek, California 95006  
Attention: Director of Finance

If to the Corporation: Municipal Finance Corporation  
\_\_\_\_\_  
Attention: Administrator

If to the Trustee: Zions Bancorporation, National Association  
\_\_\_\_\_  
Attention: Corporate Trust Services

Section 8.11. Effective Date.

This Installment Purchase Contract shall become effective upon its execution and delivery, and shall terminate when all Installment Payments shall have been fully paid and the Certificates are no longer Outstanding (or provision for the payment thereof shall have been made to the written satisfaction of the Corporation pursuant to Article IX of the Trust Agreement); provided, that the obligation of the District to compensate the Trustee, and indemnify the Corporation and the Trustee, shall survive the termination of this Installment Purchase Contract.

Section 8.12. Execution in Counterparts.

This Installment Purchase Contract may be executed in several counterparts, each of which shall be deemed an original, and all of which shall constitute but one and the same instrument.

Section 8.13. Amendments.

The District may at any time amend or modify Exhibit A of this Installment Purchase Contract to provide for the designation of an Alternate Project as provided for in Section 2.01 hereof without the consent of the Trustee, the Insurer, the Corporation or any of the Certificate Owners.

This Installment Purchase Contract may be amended in writing as may be mutually agreed by the District and the Corporation, with the written consent of the Insurer; provided, however, that no such amendment shall (i) extend the payment date of any Installment Payment or reduce the amount of any Installment Payment, or the interest rate applicable thereto, without the prior written consent of the Owner of each Certificate so affected, (ii) reduce the percentage of Owners whose consent is required for any amendment hereof without the prior written consent of the Insurer, or (iii) amend this Section without the prior written consent of the Insurer.

Notwithstanding the foregoing, this Installment Purchase Contract and the rights and obligations of the District and the Corporation hereunder may also be amended or supplemented at any time by an amendment hereof or supplement hereto which shall become binding upon execution by the District and the Corporation, but only: (i) with the consent of the Insurer, so long as the Insurance Policy is in full force and effect and the Insurer has not failed to comply with its payment obligations under the Insurance Policy and which consent shall not unreasonably or untimely be withheld, but only to the extent permitted by law and only for any one or more of the following purposes -

(i) to add to the agreements, certifications, covenants and terms required by the Corporation or the District to be observed or performed herein other agreements, certifications, covenants and terms thereafter to be observed or performed by the Corporation or the District, or to surrender any right or power reserved herein to or conferred herein on the Corporation or the District, and which in either case shall not materially adversely affect the interests of the Owners;

(ii) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained herein or in regard to questions arising hereunder which the Corporation or the District may deem desirable or necessary and not inconsistent herewith, and which shall not materially adversely affect the interests of the Owners;

(iii) to make such additions, deletions or modifications as may be necessary or appropriate to assure the exclusion of interest from federal or State income taxes;

(iv) to make such other changes herein or modifications hereto as the Corporation or the District may deem desirable or necessary, and which shall not materially adversely affect the interests of the Owners; and

(v) to issue Parity Obligations.

Any amendment made in violation of this Section 8.13 shall be a nullity and void.

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

**SAN LORENZO VALLEY WATER DISTRICT**

By: \_\_\_\_\_  
District Manager

**MUNICIPAL FINANCE CORPORATION**

By: \_\_\_\_\_  
Administrator

DRAFT

**EXHIBIT A**  
**COMPONENTS OF THE PROJECT**

The Project consists of the following:

<u>Component</u>	<u>Estimated Cost</u>
Total	\$

DRAFT



**EXHIBIT B**  
**INSTALLMENT PAYMENT SCHEDULE**

<u>Due Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2/15/2020			
8/15/2020			
2/15/2021			
8/15/2021			
2/15/2022			
8/15/2022			
2/15/2023			
8/15/2023			
2/15/2024			
8/15/2024			
2/15/2025			
8/15/2025			
2/15/2026			
8/15/2026			
2/15/2027			
8/15/2027			
2/15/2028			
8/15/2028			
2/15/2029			
8/15/2029			
2/15/2030			
8/15/2030			
2/15/2031			
8/15/2031			
2/15/2032			
2/15/2033			
8/15/2033			
2/15/2034			
8/15/2034			
2/15/2035			
8/15/2035			
2/15/2036			
8/15/2036			
2/15/2037			
8/15/2037			
2/15/2038			
8/15/2038			
2/15/2039			
8/15/2039			
2/15/2040			
8/15/2040			
2/15/2041			
8/15/2041			
2/15/2042			
8/15/2042			
2/15/2043			

**INSTALLMENT PAYMENT SCHEDULE (Cont.)**

<u>Due Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
8/15/2043			
2/15/2044			
8/15/2044			
2/15/2045			
8/15/2045			
2/15/2046			
8/15/2046			

---

TOTAL

---

---

**Attachment 4**

---

**TRUST AGREEMENT**

**among**

**ZIONS BANCORPORATION, NATIONAL ASSOCIATION**

**the**

**MUNICIPAL FINANCE CORPORATION**

**and the**

**SAN LORENZO VALLEY WATER DISTRICT**

**RELATING TO THE**

**\$ \_\_\_\_\_**

**SAN LORENZO VALLEY WATER DISTRICT  
REVENUE CERTIFICATES OF PARTICIPATION  
SERIES 2019**

**Evidencing Interests of the Owners  
Thereof in Installment Payments To Be  
Made By the San Lorenzo Valley Water District**

**Dated as of July 1, 2019**

---

TABLE OF CONTENTS

	<u>Page</u>
ARTICLE I DEFINITIONS; EQUAL SECURITY .....	2
Section 1.01. Definitions.....	2
Section 1.02. Equal Security.....	9
ARTICLE II TERMS AND CONDITIONS OF CERTIFICATES.....	10
Section 2.01. Preparation of Certificates. ....	10
Section 2.02. Denominations, Medium, Method and Place of Payment and Dating of Certificates.....	10
Section 2.03. Interest with Respect to the Certificates. ....	11
Section 2.04. Form of Certificates. ....	11
Section 2.05. Execution of Certificates.....	11
Section 2.06. Transfer and Exchange of Certificates.....	11
Section 2.07. Certificate Registration Books.....	12
Section 2.08. Temporary Certificates. ....	12
Section 2.09. Certificates Mutilated, Destroyed, Lost or Stolen. ....	13
Section 2.10. Evidence of Signatures of Certificate Owners and Ownership of Certificates.....	13
Section 2.11. Book Entry System. ....	13
ARTICLE III PROCEEDS OF CERTIFICATES; INSTALLMENT PAYMENT.....	15
Section 3.01. Delivery of Certificates.....	15
Section 3.02. Depositing of Proceeds of Certificates and Other Amounts.....	15
Section 3.03. Use of Money in the Delivery Costs Fund.....	16
Section 3.04. The Reserve Fund. ....	16
Section 3.05. Deposit of Installment Payments. ....	18
Section 3.06. Installment Payment Fund. ....	18
Section 3.07. Held in Trust.....	19
Section 3.08. Commingling of Moneys in Funds. ....	19
Section 3.09. Arbitrage Covenant. ....	19
Section 3.10. Use of Money in the Acquisition Fund.....	19
Section 3.11. Rebate of Excess Investment Earnings to United States .....	20
ARTICLE IV PREPAYMENT OF CERTIFICATES.....	22
Section 4.01. Terms of Prepayment.....	22
Section 4.02. Selection of Certificates for Prepayment; Purchase in Lieu of Prepayment.....	22
Section 4.03. Notice of Prepayment; Rescission. ....	22
Section 4.04. Partial Prepayment of Certificates. ....	23
Section 4.05. Effect of Prepayment. ....	23
ARTICLE V COVENANTS OF THE DISTRICT AND THE CORPORATION.....	24
Section 5.01. Compliance with Trust Agreement.....	24
Section 5.02. Compliance with Installment Purchase Contract.....	24
Section 5.03. Observance of Laws and Regulations.....	24

TABLE OF CONTENTS

	<u>Page</u>
Section 5.04. Other Liens.....	24
Section 5.05. Prosecution and Defense of Suits. ....	25
Section 5.06. Accounting Records and Statements. ....	25
Section 5.07. Further Assurances.....	25
<b>ARTICLE VI DEFAULT AND LIMITATIONS OF LIABILITY .....</b>	<b>25</b>
Section 6.01. Action on Default or Acceleration.....	25
Section 6.02. Other Remedies of the Trustee. ....	26
Section 6.03. Non-Waiver.....	27
Section 6.04. Remedies Not Exclusive.....	27
Section 6.05. No Liability by the Corporation to the Owners.....	27
Section 6.06. No Liability by the District to the Owners.....	27
Section 6.07. No Liability by the Trustee to the Owners.....	28
Section 6.08. Limitation on Owners’ Right to Bring Suit. ....	28
Section 6.09. Application of Funds Upon Default.....	28
Section 6.10. Rights of the Insurer; Insurer as Owner.....	30
<b>ARTICLE VII THE TRUSTEE; INSURANCE POLICY PROVISIONS; CERTIFICATE RESERVE POLICY PROVISIONS.....</b>	<b>30</b>
Section 7.01. Trustee; Duties, Removal and Resignation.....	30
Section 7.02. Compensation of the Trustee. ....	31
Section 7.03. Protection to Trustee.....	32
Section 7.04. Payment from Trust Estate Only.....	34
Section 7.05. Merger or Consolidation.....	34
Section 7.06. Claims on Insurance Policy. ....	34
Section 7.07. Provisions Relating to Insurer.....	36
Section 7.08. Certificate Reserve Policy Provisions.....	38
<b>ARTICLE VIII AMENDMENT OF OR SUPPLEMENT TO TRUST AGREEMENT.....</b>	<b>40</b>
Section 8.01. Amendment or Supplement by Consent of Owners. ....	40
Section 8.02. Disqualified Certificates. ....	40
<b>ARTICLE IX DEFEASANCE .....</b>	<b>41</b>
Section 9.01. Defeasance.....	41
Section 9.02. Unclaimed Moneys. ....	42
<b>ARTICLE X MISCELLANEOUS .....</b>	<b>43</b>
Section 10.01. Benefits of Trust Agreement Limited to Parties.....	43
Section 10.02. Successor Deemed Included in all References to Predecessor. ....	43
Section 10.03. Execution of Documents by Owners. ....	43
Section 10.04. Waiver of Personal Liability.....	43
Section 10.05. Acquisition of Certificates by District. ....	44
Section 10.06. Content of Certificates. ....	44
Section 10.07. Notice by Mail. ....	44
Section 10.08. Funds.....	44

TABLE OF CONTENTS

	<u>Page</u>
Section 10.09. Investments.....	45
Section 10.10. Article and Section Headings, Gender and References. ....	46
Section 10.11. Partial Invalidity.....	46
Section 10.12. Third Party Beneficiary.....	47
Section 10.13. California Law. ....	47
Section 10.14. Notices. ....	47
Section 10.15. Effective Date. ....	47
Section 10.16. Execution in Counterparts.....	47
APPENDIX A FORM OF CERTIFICATE .....	A-1
APPENDIX B FORM OF CERTIFICATE OF THE DISTRICT .....	B-1

## TRUST AGREEMENT

This TRUST AGREEMENT, dated as of July 1, 2019, among ZIONS BANCORPORATION, NATIONAL ASSOCIATION, a national banking association duly organized and validly existing under and by virtue of the laws of the United States of America (the “Trustee”), the Municipal Finance Corporation, a non-profit public benefit corporation duly organized and validly existing under and by virtue of the laws of the State of California (the “Corporation”), and the SAN LORENZO VALLEY WATER DISTRICT, a county water agency duly organized and validly existing under and by virtue of the laws of the State of California (the “District”);

### WITNESSETH:

WHEREAS, pursuant to the District’s Resolution No. \_\_\_\_ adopted July \_\_, 2019 (the “Resolution”), the Corporation and the District have executed and entered into an Installment Purchase Contract, dated as of July 1, 2019 (the “Installment Purchase Contract”), whereby the District has agreed to acquire from the Corporation the Project for the purposes of financing and refinancing the costs of the Acquisition of the Project; and

WHEREAS, under and pursuant to the Installment Purchase Contract, the District is obligated to pay to the Corporation Installment Payments (as defined herein) and interest thereon for the costs of such acquisition; and

WHEREAS, the Corporation has assigned without recourse all its rights to receive such Installment Payments and interest to the Trustee pursuant to an Assignment Agreement dated as of the date hereof; and

WHEREAS, in consideration of such assignment and the execution and entering into of this Trust Agreement, the Trustee has agreed to execute and deliver certificates of participation in an aggregate principal amount equal to the aggregate principal amount of such Installment Payments, each evidencing and representing a proportionate interest in the right to receive such Installment Payments and interest thereon; and

WHEREAS, the District and the Corporation hereby certify 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 Trust Agreement by each such party 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 Trust Agreement;

NOW, THEREFORE, IN CONSIDERATION OF THE PREMISES AND OF THE MUTUAL AGREEMENTS AND COVENANTS CONTAINED HEREIN AND FOR OTHER VALUABLE CONSIDERATION, THE PARTIES HERETO DO HEREBY AGREE AS FOLLOWS:

## **ARTICLE I DEFINITIONS; EQUAL SECURITY**

### **Section 1.01. Definitions.**

Unless the context otherwise requires, the terms defined in this Section 1.01 shall for all purposes hereof and of any amendment hereof or supplement hereto and of the Certificates 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. All capitalized terms used herein and not defined herein shall have the meaning ascribed thereto in the Installment Purchase Contract:

“Accountant’s Report” means a report signed by an Independent Certified Public Accountant.

“Acquisition,” “Acquire” or “Acquired” means, with respect to the Project, the acquisition of an ownership or capacity interest in the Project, or the financing, construction or ownership of the Project.

“Acquisition Costs” with respect to the Project means the contract price paid or to be paid to the contractors therefor upon acquisition, construction, refinancing, improvement, repair, modification or delivery of any portion of the Project and related equipment, in accordance with the purchase order or contract therefor. Acquisition Costs include the costs of site preparation necessary for the installation of any improvements to the Project. Acquisition Costs also include costs incurred by the District, the Corporation and the contractors in connection with the acquisition, delivery and installation of the Project.

“Acquisition Fund” means the fund established in Section 3.10 hereof.

“Assignment Agreement” means that certain Assignment Agreement by and between the Corporation and the Trustee, dated as of July 1, 2019, as originally executed and as it may from time to time be amended or supplemented in accordance herewith and therewith.

“Authorized Officer of the District” means the President, Vice President, District Manager, Director of Finance, and Secretary of the District, or their designated representatives, or such other representatives of the District as may be designated by resolution of the District.

“Business Day” means any day other than a Saturday, Sunday or legal holiday or a day on which banks are authorized to be closed for business in California and New York.

“Certificate of the District” means an instrument in writing signed by the District Manager of the District, or by any other officer of the District duly authorized by the Board of Directors of the District for that purpose.

“Certificates” means the \$\_\_\_\_\_ principal amount of San Lorenzo Valley Water District Revenue Certificates of Participation, Series 2019 authorized hereby and at any time Outstanding hereunder that are executed and delivered by the Trustee under and pursuant to Article II of this Trust Agreement.



“Certificate Reserve Policy” means the municipal bond debt service reserve insurance policy, and any endorsement thereto, issued by the Insurer under which claims may be made in order to provide moneys in the Reserve Fund available for the purposes thereof

“Closing Date” means [July 31,] 2019.

“Continuing Disclosure Agreement” means that certain Continuing Disclosure Agreement between the District and Zions Bancorporation, National Association, as trustee and dissemination agent, dated as of July 1, 2019, as originally executed and as it may from time to time be amended or supplemented in accordance herewith and therewith.

“Corporation” means the Municipal Finance Corporation, a non-profit public benefit corporation duly organized and validly existing under the laws of the State of California and its successors and assigns.

“Delivery Costs” means all items of expense directly or indirectly payable by or reimbursable to the District or the Corporation relating to the financing of the Project, including but not limited to filing costs, settlement costs, printing costs, reproduction and binding costs, initial fees and charges of the Trustee and its counsel, financing discounts, legal fees and charges, financial and other professional consultant fees, costs of rating agencies for credit ratings, fees for execution, title insurance premiums, transportation and safekeeping of Certificates and charges and fees in connection with the foregoing.

“Delivery Costs Fund” means the fund established by Section 3.02 hereof.

“Depository” means (a) initially, DTC, and (b) any other qualified securities depository acting as Depository pursuant to Section 2.11 hereof.

“Depository System Participant” means any participant in the Depository’s book entry system.

“District” means the San Lorenzo Valley Water District, a county water agency organized and validly existing under and by virtue of the laws of the State of California.

“DTC” means the Depository Trust Company, New York, New York, and its successors and assigns.

“Enterprise” shall have the meaning provided in the Installment Purchase Contract.

“Event of Default” means an event of default described in Section 7.01 of the Installment Purchase Contract.

“Federal Securities” means non-callable, direct obligations of (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States), or obligations the timely payment of the principal of and interest on which are fully and unconditionally guaranteed by, the United States of America.

“Fiscal Year” means the twelve calendar month period terminating on June 30 of each year, or any other annual accounting period hereafter selected and designated by the District as its Fiscal Year in accordance with applicable law.

“Generally Accepted Accounting Principles” means the uniform accounting and reporting procedures prescribed by the California State Controller or his successor for county water agencies in the State of California, 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.

“Independent Certified Public Accountant” means any certified public accountant or firm of certified public accountants duly licensed and entitled to practice, and practicing as such, under the laws of the State of California, appointed and paid by the District, and each of whom--

1. is in fact independent 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 board member, officer or employee of the District, but may be regularly retained to audit the accounting records of and make reports thereon to the District.

“Information Services” means the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access system (“EMMA”), or, in accordance with then-current guidelines of the Securities and Exchange Commission, one or more services selected by the Trustee which are then providing information with respect to called Certificates, or, if the Trustee does not select a service, then such service or services as the District or Corporation may designate in a certificate delivered to the Trustee.

“Insurance Policy” means the municipal bond insurance policy issued by the Insurer with respect to the Certificates.

“Insurer” means Build America Mutual Assurance Company, its successors and assigns, as issuer of the Insurance Policy.

“Installment Payment Fund” means the fund by that name established in Section 3.06 hereof, including the Interest Account, Principal Account and Prepayment Account therein.

“Installment Payments” means the installment payments of principal and interest scheduled to be paid by the District under the Installment Purchase Contract plus amounts required to be paid by the District hereunder and pursuant to the Installment Purchase Contract, including, without limitation (except when calculating the Reserve Requirement), amounts necessary to replenish the Reserve Fund.

“Installment Purchase Contract” means that certain Installment Purchase Contract by and between the District and the Corporation, dated as of July 1, 2019 as originally executed

and as it may from time to time be amended or supplemented in accordance herewith and therewith.

“Interest Payment Date” means each March 1 and September 1, commencing on March 1, 2020; provided, however, if such date is not a Business Day, Interest Payment Date means the next succeeding Business Day.

“Late Payment Rate” means the lesser of (a) the greater of (i) the per annum rate of interest, publicly announced from time to time by JPMorgan Chase Bank, NATIONAL ASSOCIATION, at its principal office in The City of New York, New York, as its prime or base lending rate (“Prime Rate”) (any change in such Prime Rate to be effective on the date such change is announced by JPMorgan Chase Bank, NATIONAL ASSOCIATION) plus 3%, and (ii) the then applicable highest rate of interest with respect to the Certificates, and (b) the maximum rate permissible under applicable usury or similar laws limiting interest rates. In the event JPMorgan Chase Bank, NATIONAL ASSOCIATION, ceases to announce its Prime Rate, the Prime Rate shall be the prime or base lending rate of such other bank, banking association or trust company as the Insurer, in its sole and absolute discretion, shall designate. Interest at the Late Payment Rate on any amount owing to the Insurer shall be computed on the basis of the actual number of days elapsed in a year of 360 days.

“Moody’s” means Moody’s Investors Service, its successors and assigns.

“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.

“Nominee” means (a) initially, Cede & Co., as nominee of DTC, and (b) any other nominee of a Depository designated pursuant to Section 2.11 hereof.

“Outstanding” when used as of any particular time with reference to Certificates, means (subject to the provisions of Section 8.02) all Certificates except --

- (1) Certificates canceled by the Trustee;
- (2) Certificates paid or deemed to have been paid within the meaning of Section 9.01; and
- (3) Certificates in lieu of or in substitution for which replacement Certificates shall have been executed and delivered hereunder.

“Owner” means the registered owner of any Outstanding Certificate.

“Parity Obligations” shall have the meaning provided in the Installment Purchase Contract.

“Permitted Investments” means any of the following which at the time of investment are legal investments under the laws of the State of California for the moneys proposed

to be invested therein (the Trustee is entitled to conclusively rely upon any direction of the District as a certification that such investment constitutes a Permitted Investment):

1. Direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury, but excluding CATS and TIGRS) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.

2. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):

Farmers Home Administration (FmHA)

Certificates of beneficial ownership

Federal Housing Administration Debentures (FHA)

General Services Administration

Participation certificates

Government National Mortgage Association (GNMA or “Ginnie Mae”)

GNMA – guaranteed mortgage-backed bonds

GNMA – guaranteed pass-through obligations (participation certificates)

(not acceptable for certain cash-flow sensitive issues.)

U.S. Maritime Administration

Guaranteed Title XI financing

U.S. Department of Housing and Urban Development (HUD)

Project Notes

Local District Bonds

New Communities Debentures – U.S. Government guaranteed debentures

U.S. Public Housing Notes and Bonds – U.S. Government guaranteed

public housing notes and bonds

3. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself):

Federal Home Loan Bank Enterprise

Senior debt obligations

Federal Home Loan Mortgage Corporation (FHLMC or “Freddie Mac”)  
Participation certificates  
Senior debt obligations

Federal National Mortgage Association (FNMA or “Fannie Mae”)  
Mortgage-backed securities and senior debt obligations

Resolution Funding Corp. (REFCORP) obligations

Farm Credit Enterprise  
Consolidated system-wide bonds and notes

Federal Agriculture Mortgage Association

Tennessee Valley District

4. Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of “AAAm-G,” “AAA-m,” or “AA-m” and if rated by Moody’s rated “Aaa,” “Aa1” or “Aa2,” including funds for which the Trustee, its parent holding company, if any, or any affiliates or subsidiaries of the Trustee provide investment advisory or other management services.

5. Certificates of deposit secured at all times by collateral described in 1 and/or 2 above. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks including the Trustee and its affiliates. The collateral must be held by a third party and the Owners must have a perfected first security interest in the collateral.

6. Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BIF and SAIF. In addition to the authority to invest funds in certificates of deposit set forth in this subsection (6), an investment in nonnegotiable certificates of deposit made in accordance with the following conditions is an authorized investment: (i) the financial institution selected by the District arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the District; (ii) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States of America or an instrumentality of the United States of America; (iii) the financial institution selected by the District acts as custodian for the District with respect to the certificates of deposit issued for the account of the District.

7. Investment agreements, including GIC’s, forward purchase agreements and reserve fund put agreements.

8. Commercial paper rated, at the time of purchase, “Prime -1” by Moody’s and “A-1” or better by S&P.

9. Bonds or notes issued by any state or municipality which are rated by Moody’s and S&P in one of the two highest rating categories assigned by such agencies.

10. Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of “Prime -1” or “A3” or better by Moody’s and “A-1+” by S&P.

11. Repurchase agreements for 30 days or less must follow the following criteria:

(i) Repurchase agreements that provide for the transfer of securities from a dealer bank or securities firm (seller/borrower) to the Trustee (buyer/lender), and the transfer of cash from the Trustee to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the Trustee in exchange for the securities at a specified date.

12. Medium-term Notes: Corporate notes issued by corporations organized and operating within the United States with a rating of “AAA” or higher at the time of purchase by a nationally recognized rating service and with a maximum remaining maturity of no more than three (3) years after the date of purchase.

13. The Local Agency Investment Fund created pursuant to Section 16429.1 of the California Government Code, to the extent the Trustee is authorized to register such investment in its name.

14. Investment Trust of California, doing business as CalTRUST

15. Shares in a California common law trust established pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State of California which invests exclusively in investments permitted by Section 53601 of Title 5, Division 2, Chapter 4 of the Government Code of California, as it may be amended.

“Principal Office” means the corporate trust office of the Trustee currently located in Los Angeles, California, or such other office designated by the Trustee from time to time, except that with respect to presentation of Certificates for payment or for registration of transfer or exchange such term shall mean the office or agency of the Trustee at which, at any particular time, its corporate trust agency business shall be conducted.

“Project” shall have the meaning set forth in the Installment Purchase Contract.

“Purchaser” means Municipal Capital Markets Group, Inc., as the underwriter and purchaser of the Certificates.

“Qualified Reserve Fund Credit Instrument” means an irrevocable standby or direct-pay letter of credit or surety bond issued by a commercial bank or insurance company and deposited with the Trustee pursuant to Section 3.04, provided that all of the following requirements are met as of the time of delivery thereof to the Trustee: (a) the long-term credit rating of such bank or insurance company shall be not less than the initial rating category of S&P on the Certificates; (b) such letter of credit or surety bond has a term of at least twelve (12) months; (c) such letter of credit or surety bond has a stated amount at least equal to the portion of the Reserve Requirement with respect to which funds are proposed to be released pursuant to Section 3.04; and (d) the Trustee is authorized pursuant to the terms of such letter of credit or surety bond to draw

thereunder an amount equal to any deficiencies which may exist from time to time in the Interest Account or the Principal Account for the purpose of making payments required pursuant to Section 3.06. The Certificate Reserve Policy is a Qualified Reserve Fund Credit Instrument hereunder.

“Record Date” means the fifteenth day of the calendar month prior to an Interest Payment Date, whether or not such date is a Business Day.

“Related Documents” means this Trust Agreement, the Assignment Agreement, the Continuing Disclosure Agreement and the Installment Purchase Contract.

“Reserve Fund” means the fund by that name established in Section 3.04 hereof.

“Reserve Requirement” means, as of any date of calculation by the Trustee, the lesser of (i) 10% of the original principal amount of the principal payments due under the Installment Purchase Contract (less original issue discount, if any), (ii) an amount equal to the maximum annual Installment Payment payable in a Certificate Year by the District between such date of calculation and the expiration of the Installment Purchase Contract, or (iii) 125% of the average annual Installment Payment payable in a Certificate Year by the District.

“S&P” means Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business, or any successor thereto.

“Securities Depositories” means The Depository Trust Company, 55 Water Street, 50th Floor, New York, New York 10041-0099, Attention: Call Notification Department, Fax (212) 855-7232; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories as the Corporation or the District may designate in writing to the Trustee.

“Trust Agreement” means this Trust Agreement by and among the Trustee, the Corporation and the District, dated as of July 1, 2019 as originally executed and entered into and as it may from time to time be amended or supplemented in accordance herewith.

“Trustee” means Zions Bancorporation, National Association, a national banking corporation duly organized and existing under and by virtue of the laws of the United States of America, or its successor or any other bank or trust company which may at any time be substituted in its place as provided in Section 7.01.

### **Section 1.02. Equal Security.**

In consideration of the acceptance of the Certificates by the Owners, this Trust Agreement shall be deemed to be and shall constitute a contract by and among the Trustee, the District, the Corporation and the Owners to secure the full and final payment of the interest and principal and prepayment premiums, if any, to be made by the District evidenced and represented by the Certificates, subject to the agreements, conditions, covenants and terms contained herein; and all agreements, conditions, covenants and terms contained herein required to be observed or performed by or on behalf of the Trustee shall be for the equal and proportionate benefit, protection and security of all Owners without distinction, preference or priority as to benefit, protection or security of any Certificates over any other Certificates by reason of the number or date thereof or

the time of execution or delivery thereof or otherwise for any cause whatsoever, except as expressly provided herein or therein.

**ARTICLE II  
TERMS AND CONDITIONS OF CERTIFICATES**

**Section 2.01. Preparation of Certificates.**

The Trustee is hereby authorized and directed to execute the Certificates in the principal amount of \$\_\_\_\_\_, evidencing and representing the aggregate principal amount of the Installment Payments and each evidencing and representing an interest in the Installment Payments. The Certificates shall be designated “San Lorenzo Valley Water District Revenue Certificates of Participation, Series 2019.”

**Section 2.02. Denominations, Medium, Method and Place of Payment and Dating of Certificates.**

The Certificates shall be prepared in the form of fully registered Certificates in denominations of five thousand dollars (\$5,000) or any integral multiple thereof. The interest, principal and prepayment premiums, if any, evidenced and represented by the Certificates shall be payable in lawful money of the United States of America. Subject to the provisions of Section 2.11 hereof, the interest evidenced and represented by the Certificates shall be payable on their Interest Payment Dates by check mailed via first class mail on the Interest Payment Date by the Trustee to the respective Owners thereof as of the Record Date at their addresses as they appear in the books required to be kept by the Trustee pursuant to the provisions of Section 2.07 hereof or, upon the written request from any Owner of any Certificate in a denomination of, or Certificates aggregating, at least \$1,000,000 in principal amount, received on or prior to the fifteenth day of the month preceding an applicable Interest Payment Date, by wire in Federal Reserve funds on the Payment Date, with regard to which such payment is made. The principal evidenced and represented by the Certificates shall be payable on September 1 in each of the years and in the principal amounts as follows, or on prepayment prior thereto, upon surrender thereof at the principal corporate trust office of the Trustee in Los Angeles, California, or such other places designated by the Trustee:

**Certificates**

<b><u>Year</u></b> <b><u>(September 1)</u></b>	<b><u>Principal</u></b> <b><u>Amount</u></b>	<b><u>Interest</u></b> <b><u>Rate</u></b>
---	---	--



The Certificates shall be dated the Closing Date, and shall evidence and represent interest from the Interest Payment Date immediately preceding the date of execution thereof by the Trustee, unless such date of execution is between the fifteenth (15th) day of the calendar month prior to an Interest Payment Date and such Interest Payment Date, both inclusive, in which case they shall evidence and represent interest from such Interest Payment Date, or unless such date of execution is on or before February 15, 2020, in which case they shall evidence and represent interest from the Closing Date.

**Section 2.03. Interest with Respect to the Certificates.**

Interest on the principal components of the Installment Payments relating to the Certificates shall be calculated at the rates per annum (based on a 360-day year of twelve 30-day months) set forth in Section 2.02 hereof.

**Section 2.04. Form of Certificates.**

The Certificates and the assignment to appear thereon shall be in substantially the forms set forth in Appendix A hereto with appropriate or necessary insertions, omissions and variations as permitted or required hereby.

**Section 2.05. Execution of Certificates.**

The Certificates shall be executed by the Trustee by the manual signature of an authorized officer of the Trustee.

**Section 2.06. Transfer and Exchange of Certificates.**

Subject to the provisions of Section 2.11 hereof, (a) each Certificate shall be transferable only upon a register of the names of each certificate owner (the "Certificate Register"), which shall be kept for that purpose at the Principal Office of the Trustee, by the Owner thereof in person or by his attorney duly authorized in writing, upon surrender thereof together with a written instrument of transfer satisfactory to the Trustee duly executed by the Owner or his duly authorized attorney. Upon the transfer of any such Certificate, the Trustee shall provide in the name of the transferee, a new Certificate or Certificates, of the same aggregate principal amount, interest rate and maturity as the surrendered Certificates (unless there has occurred a partial prepayment of such Certificate pursuant to Section 4.01 hereof, in which case the principal amount of the new Certificate shall be equal to the unrepaid principal portion of the Certificate submitted for transfer).

(b) The Trustee shall deem and treat the person in whose name any Outstanding Certificate shall be registered upon the Certificate Register as the absolute owner of such Certificate, whether such Certificate shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal of and interest on such Certificate and for all other purposes, and all such payments so made to any such Owner or upon his order shall be valid and effectual to satisfy and discharge the liability upon such Certificate to the extent of the sum or sums so paid, and neither the District nor the Trustee shall be affected by any notice to the contrary. The District

agrees to indemnify and save the Trustee harmless from and against any and all loss, cost, charge, expense, judgment or liability incurred by it, acting in good faith and without negligence or willful misconduct under the Trust Agreement, in so treating such Owner.

In all cases in which the privilege of exchanging or transferring Certificates is exercised, the Trustee shall execute and deliver Certificates in accordance with the provisions of this Article. All Certificates surrendered in any such exchanges or transfers shall forthwith be canceled by the Trustee. For every such exchange or transfer of Certificates, whether temporary or definitive, the District and the Trustee may make a charge sufficient to reimburse any of them for any tax, fee or other governmental charge, other than one imposed by the District, required to be paid with respect to such exchange or transfer, which sum or sums shall be paid by the person requesting such exchange or transfer as a condition precedent to the exercise of the privilege of making such exchange or transfer. Notwithstanding any other provision hereof, the cost of preparing each new Certificate and any other expenses of the District or the Trustee incurred in connection therewith (except any applicable tax, fee or other governmental charge other than one imposed by the District) shall be paid by the District. The Trustee shall not be obliged to effect any exchange or transfer of any Certificate during the period after the mailing of notice calling such Certificate or a portion thereof for prepayment, nor during the fifteen (15) days preceding the giving of such notice of prepayment.

#### **Section 2.07. Certificate Registration Books.**

The Trustee shall keep or cause to be kept at its Principal Office sufficient books for the registration and transfer of the Certificates, which shall, during normal business hours upon reasonable prior written notice be open to inspection by the District and the Corporation (or its designated agent); and, upon presentation for such purpose, the Trustee shall, under such reasonable regulations consistent herewith as it may prescribe, register or transfer or cause to be registered or transferred, on the Certificate Register, Certificates as herein before provided.

#### **Section 2.08. Temporary Certificates.**

Pending preparation of the definitive Certificates, any Certificates delivered under the Trust Agreement may be initially delivered in temporary form exchangeable for definitive Certificates when ready for delivery. The temporary Certificates may be printed, lithographed or typewritten, shall be of such denominations as may be determined by the District, shall be without coupons and may contain such reference to any of the provisions hereof as may be appropriate. Every temporary Certificate shall be executed by the Trustee and be delivered by the Trustee upon the same conditions and in substantially the same manner as definitive Certificates. If the Trustee delivers temporary Certificates, it shall execute and furnish definitive Certificates without delay and, thereupon, the temporary Certificates shall be surrendered for cancellation at the Principal Office of the Trustee and the Trustee shall deliver in exchange for such temporary Certificates an equal aggregate principal amount of definitive Certificates of authorized denominations of the same interest rate or rates and maturity or maturities. Until so exchanged, the temporary Certificates shall be entitled to the same benefits under the Trust Agreement as definitive Certificates delivered pursuant hereto.

### **Section 2.09. Certificates Mutilated, Destroyed, Lost or Stolen.**

If any Certificate shall become mutilated, the Trustee, at the expense of the Owner of said Certificate, shall execute and deliver a new Certificate of like tenor in exchange and substitution for the Certificate so mutilated, but only upon surrender to the Trustee of the Certificate so mutilated. Every mutilated Certificate so surrendered to the Trustee shall be canceled by it and destroyed. If any Certificate shall be lost, destroyed or stolen, evidence of such loss, destruction or theft shall be submitted to the Trustee, and, if such evidence is satisfactory to the Trustee and if an indemnity satisfactory to the Trustee shall be given, the Trustee, at the expense of the Certificate Owner, shall execute and deliver a new Certificate of like tenor and numbered as the Trustee shall determine in lieu of and in substitution for the Certificate so lost, destroyed or stolen. The Trustee may require payment of a reasonable fee for each new Certificate delivered under this Section and of the reasonable expenses which may be incurred by the Trustee in carrying out the duties under this Section 2.09. Any Certificate executed and delivered under the provisions of this Section in lieu of any Certificate alleged to be lost, destroyed or stolen shall be equally and proportionately entitled to the benefits hereof with all other Certificates secured by the Trust Agreement. The Trustee shall not be required to treat both the original Certificate and any replacement Certificate as being Outstanding for the purpose of determining the principal amount of Certificates which may be executed and delivered under the Trust Agreement or for the purpose of determining any percentage of Certificates Outstanding under the Trust Agreement, but both the original and replacement Certificate shall be treated as one and the same. Notwithstanding any other provision of this Section 2.09, in lieu of delivering a new Certificate for a Certificate which has been mutilated, lost, destroyed or stolen and which has matured, the Trustee may make payment of such Certificate, upon receipt of indemnity satisfactory to Trustee.

### **Section 2.10. Evidence of Signatures of Certificate Owners and Ownership of Certificates.**

Any request, direction, consent, revocation of consent, or other instrument in writing required or permitted by the Trust Agreement to be signed or executed by Certificate Owners may be in any number of concurrent instruments of similar tenor, and may be signed or executed by such Certificate Owners in person or by their attorneys or agents appointed by an instrument in writing for that purpose. Proof of the execution of any such instrument, or of any instrument appointing any such attorney or agent, and of the holding and ownership of Certificates shall be sufficient for any purpose hereof (except as otherwise herein provided), if made in the form of the Assignment attached to the Certificate in Exhibit A hereto.

Nothing contained in this Article shall be construed as limiting the Trustee to such proof, it being intended that the Trustee may accept any other evidence of the matters herein stated which to the Trustee may seem sufficient. Any request or consent of the Owner of any Certificate shall bind every future Owner of the same Certificate in respect of anything done or suffered to be done by the District or the Trustee in pursuance of such request or consent.

### **Section 2.11. Book Entry System.**

(a) Original Delivery. The Certificates shall be initially delivered in the form of a separate single fully registered Certificate (which may be typewritten) for each maturity. Upon initial delivery, the ownership of each such Certificate shall be registered on the Certificate

Register kept by the Trustee in the name of the Nominee. Except as provided in subsection (c), the ownership of all of the Outstanding Certificates shall be registered in the name of the Nominee.

With respect to Certificates the ownership of which shall be registered in the name of the Nominee, the District and the Trustee shall have no responsibility or obligation to any Depository System Participant or to any person on behalf of which the District holds an interest in the Certificates. Without limiting the generality of the immediately preceding sentence, the District and the Trustee shall have no responsibility or obligation with respect to (i) the accuracy of the records of the Depository, the Nominee or any Depository System Participant with respect to any ownership interest in the Certificates, (ii) the delivery to any Depository System Participant or any other person, other than a Certificate Owner as shown in the Certificate Register, or any notice with respect to the Certificates, including any notice of prepayment, (iii) the selection by the Depository of the beneficial interests in the Certificates to be prepaid in the event the District elects to prepay the Certificate in part, (iv) the payment to any Depository System Participant or any other person, other than a Certificate Owner as shown in the Certificate Register, of any amount with respect to principal, premium, if any, or interest with respect to the Certificates, or (v) any consent given or other action taken by the Depository as Owner of the Certificates. The District and the Trustee may treat and consider the person in whose name each Certificate is registered as the absolute owner of such Certificates for the purpose of payment of principal of, premium, if any, and interest on such Certificates for the purpose of giving notices of prepayment and other matters with respect to such Certificates, for the purpose of registering transfers of ownership of such Certificates, and for all other purposes whatsoever. The Trustee shall pay the principal of and the interest and premium, if any, on the Certificates only to the respective Owners or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge all obligations with respect to payment of principal of and interest and premium, if any, on the Certificates to the extent of the sum or sums so paid. No person other than an Owner shall receive a Certificate evidencing the obligation of the District to make payments of principal, interest and premium, if any, pursuant to this Trust Agreement. Upon delivery by the Depository to the Nominee of written notice to the effect that the Depository has determined to substitute a new Nominee in its place, and subject to the provisions herein with respect to Record Dates, such new nominee shall become the Nominee hereunder for all purposes; and upon receipt of such a notice of the District shall promptly, but in no event later than two (2) Business Days after receipt thereof, deliver a copy of the same to the Trustee.

(b) Representation Letter. In order to qualify the Certificates for the Depository's book-entry system, the District shall execute and deliver to such Depository a letter representing such matters as shall be necessary to so qualify the Certificates. The execution and delivery of such letter shall not in any way limit the provisions of subsection (a) above or in any other way impose upon the District or the Trustee any obligation whatsoever with respect to persons having interests in the Certificates other than the Certificate Owners. In addition to the execution and delivery of such letter, the District may take any other actions, not inconsistent with this Trust Agreement, to qualify the Certificates for the Depository's book-entry program.

(c) Transfers Outside Book-Entry System. In the event that either (i) the Depository determines not to continue to act as Depository for the Certificates, or (ii) the District determines to terminate the Depository as such, then the District shall thereupon discontinue the book-entry system with such Depository. In such event, the Depository shall cooperate with the

District and the Trustee in the execution and delivery of replacement Certificates by providing the Trustee with a list showing the interests of the Depository System Participants in the Certificates, and by surrendering the Certificates, registered in the name of the Nominee, to the Trustee on or before the date such replacement Certificates are to be executed and delivered. The Depository, by accepting delivery of the Certificates, agrees in the Letter of Representations to be bound by the provisions of this subsection (c). If, prior to the termination of the Depository acting as such, the District fails to identify another qualified securities depository to replace the Depository, then the Certificates shall no longer be required to be registered in the Certificate Register in the name of the Nominee, but shall be registered in whatever name or names the Owners transferring or exchanging Certificates shall designate, in accordance with the provisions of this Section 2.11 hereof.

In the event the District determines that it is in the best interests of the beneficial owners of the Certificates that they be able to obtain certificated Certificates, the District may notify the Depository System Participants of the availability of such certificate Certificates through the Depository. In such event, the Trustee will, at the expense of the District, execute, transfer and exchange Certificates as required by the Depository and others in appropriate amounts; and whenever the Depository so requests, the District shall cooperate with the Depository in taking appropriate action (i) to make available one or more separate certificates evidencing the Certificates to any Depository System Participant having Certificates credited to its account with the Depository, or (ii) to arrange for another qualified securities depository to maintain custody of a single certificate evidencing such Certificates, all at the District's expense.

(d) Payments to the Nominee. Notwithstanding any other provision of the Trust Agreement to the contrary, so long as any Certificate is registered in the name of the Nominee, all payments with respect to principal of and interest and premium, if any, on such Certificates and all notices with respect to such Certificates shall be made and given, respectively, as provided in the letter described in subsection (b) of this Section or as otherwise instructed in writing by the Depository.

### **ARTICLE III PROCEEDS OF CERTIFICATES; INSTALLMENT PAYMENT**

#### **Section 3.01. Delivery of Certificates.**

The Trustee is hereby authorized to execute the Certificates and upon receipt of the proceeds of sale thereof deliver the Certificates to the Purchaser upon receipt of a Certificate of the District.

#### **Section 3.02. Depositing of Proceeds of Certificates and Other Amounts.**

(a) The Trustee shall apply the proceeds derived from the sale of the Certificates (\$\_\_\_\_\_), being the principal amount of the Certificates of \$\_\_\_\_\_, less underwriter's discount of \$\_\_\_\_\_, less net original issue discount of \$\_\_\_\_\_, less the aggregate Insurance Policy and Certificate Reserve Policy premiums of \$\_\_\_\_\_ which the Underwriter will transfer directly to the Insurer, as follows:

- and
- (i) The Trustee shall deposit to the Delivery Costs Fund the sum of \$\_\_\_\_\_;
  - (ii) The Trustee shall deposit to the Acquisition Fund the sum of \$\_\_\_\_\_.
  - (b) The Trustee shall also deposit the Certificate Reserve Policy to the Reserve Fund.
  - (c) The Trustee may establish temporary funds or accounts on its records to facilitate such transfers.

**Section 3.03. Use of Money in the Delivery Costs Fund.**

- (a) The Trustee shall disburse funds from the Delivery Costs Fund only upon receipt of a signed requisition (stating the amount to be disbursed and the party or parties being paid) approved by the Authorized Officer of the District and accompanied by an invoice or statement for each such amount. Each such requisition shall be sufficient evidence to the Trustee of the facts stated therein and the Trustee shall have no duty to confirm the accuracy of such facts.
- (b) Upon payment of all Delivery Costs, which shall be determined by a certificate to that effect by an Authorized Officer of the District delivered to the Trustee, or upon the date occurring three (3) months after the Closing Date, whichever occurs first, the Trustee shall transfer all funds remaining in the Delivery Costs Fund to the Installment Payment Fund, and the Delivery Costs Fund shall thereupon be closed.

**Section 3.04. The Reserve Fund.**

The Trustee hereby agrees to establish and maintain so long as any Certificates are Outstanding the Reserve Fund. The Certificate Reserve Policy shall be deposited into the Reserve Fund which shall satisfy the Reserve Requirement. Amounts on deposit in the Reserve Fund shall be available only to (a) pay the principal and interest with respect to the Certificates in the event of a shortfall in the Interest Account and Principal Account, respectively, and for so long as any Certificates remain outstanding and (b) make the final payments of principal of and interest on the Certificates. Amounts on deposit in the Reserve Fund shall not be available for the payment of debt service on or with respect to any Parity Obligations. On the date on which all Certificates shall be retired hereunder or provision made therefor pursuant to Article IX, all moneys then on deposit in the Reserve Fund shall be withdrawn by the Trustee and paid to the District.

Amounts in the Reserve Fund shall be valued by the Trustee. If, on any date of computation, moneys and securities on deposit in the Reserve Fund are less than the Reserve Requirement (unless such deficiency is a result of a transfer therefrom), the District covenants and agrees that it will, within twelve months thereof, increase the amount therein to the Reserve Requirement. If such deficiency is a result of a transfer therefrom, the District covenants and agrees that it will, within twenty-four months thereof, increase the amount therein to the Reserve Requirement. If, on any date of computation, moneys and securities on deposit in the Reserve Fund are in excess of the Reserve Requirement, the Trustee shall withdraw such excess amount and transfer such amount to the Installment Payment Fund, subject to the requirement that certain

investment earnings must be transferred to the Rebate Fund (as defined in Section 3.11 hereof) in accordance with instructions of the District as required hereunder.

The District shall have the right at any time, with the prior written consent of the Insurer, so long as the Insurance Policy is in full force and effect and the Insurer has not failed to comply with its payment obligations under the Insurance Policy and which consent shall not unreasonably or untimely be withheld, to direct the Trustee to release funds from the Reserve Fund, in whole or in part, by tendering to the Trustee: (1) a Qualified Reserve Fund Credit Instrument, and (2) an opinion of nationally recognized bond counsel stating that such release will not, of itself, cause interest with respect to the Certificates to become includable in gross income for purposes of federal income taxation. Upon tender of such items to the Trustee, the Trustee shall transfer such funds from the Reserve Fund to the District for deposit by the District in a segregated account maintained by the District and used exclusively for the acquisition, construction and installation of improvements to the Enterprise. Prior to the expiration of any Qualified Reserve Fund Credit Instrument, the District shall be obligated either (a) to replace such Qualified Reserve Fund Credit Instrument with a new Qualified Reserve Fund Credit Instrument, or (b) to remit or cause to be remitted to the Trustee for deposit in the Reserve Fund an amount of moneys equal to the Reserve Requirement, to be derived from Net Revenues; provided, however, that if the District shall fail to replace an expiring Qualified Reserve Fund Credit Instrument or to deposit moneys equal to the Reserve Requirement, the Trustee shall draw on such Qualified Reserve Fund Credit Instrument before such expiration and deposit the proceeds of such draw in the Reserve Fund. Except for the transfers out of and withdrawals described in this paragraph and in the paragraph immediately prior to this paragraph, all money in the Reserve Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the principal and interest with respect to the Certificates in the event of a shortfall in the Interest Account and Principal Account, respectively, and for so long as any Certificates remain outstanding, or make the final payments of principal of and interest on the Certificates.

In the event that the Reserve Requirement shall at any time be maintained in the form of a combination of cash and a Qualified Reserve Fund Credit Instrument, the Trustee shall apply the amount of such cash to make any payment required to be made from the Reserve Fund before the Trustee shall draw any moneys under such Qualified Reserve Fund Credit Instrument for such purpose. In the event that more than one Qualified Reserve Fund Credit Instrument shall be maintained as all or a portion of the Reserve Requirement, and the Trustee is otherwise required hereunder to draw on such Qualified Reserve Fund Credit Instruments, the Trustee shall draw pro rata on each such Qualified Reserve Fund Credit Instrument. In the event that the Trustee shall at any time draw funds under a Qualified Reserve Fund Credit Instrument to make any payment then required to be made from the Reserve Fund, the Net Revenues thereafter received by the Trustee, to the extent remaining after making the other deposits (if any) then required to be made pursuant to this Section 3.04, shall be used to reinstate the Qualified Reserve Fund Credit Instrument.

Notwithstanding any other provision of this Trust Agreement, the District need not replace any Qualified Reserve Fund Credit Instrument or deposit cash in the Reserve Fund in the event that the provider of the Qualified Reserve Fund Credit Instrument is downgraded by S&P or Moody's or fails to honor a draw thereon; it being the intent of the District that if the Qualified Reserve Fund Credit Instrument meets the requirement of this Trust Agreement at the time it is

delivered to the Trustee, it will remain a Qualified Reserve Fund Credit Instrument for its stated term.

### **Section 3.05. Deposit of Installment Payments.**

All Installment Payments and interest thereon shall be paid directly by the District to the Trustee, and if received by the Corporation at any time shall be deposited by the Corporation with the Trustee within one (1) Business Day after the receipt thereof. All Installment Payments and interest thereon received by the Trustee shall be held in trust by the Trustee under the terms hereof and shall be deposited by it as and when received in the Installment Payment Fund, which fund the Trustee hereby agrees to establish and maintain so long as any Certificates are Outstanding.

### **Section 3.06. Installment Payment Fund.**

The Trustee shall deposit the money contained in the Installment Payment Fund at the following respective times in the following respective accounts in the following order of priority in the manner hereinafter provided, each of which fund and account the Trustee hereby agrees to establish and maintain so long as any Certificates are Outstanding, and the money in each of such funds shall be disbursed only for the purposes and uses hereinafter authorized:

(a) Interest Account. The Trustee, on or before each Interest Payment Date, shall deposit in the Interest Account that amount of money constituting the interest components due and unpaid or becoming due and payable to but not including such Interest Payment Date. All money in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest evidenced and represented by such Certificates to but not including their respective Interest Payment Dates or any other date on which the Certificates may be prepaid in accordance with Article IV hereof.

(b) Principal Account. The Trustee on or before each September 1, shall deposit in the Principal Account that amount of money constituting the principal components of Installment Payments representing the principal to become due and unpaid or becoming due and payable on September 1. All moneys in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal evidenced and represented by such Certificates on the principal payment date.

(c) Prepayment Account. The Trustee, on the prepayment date specified in the Certificate of the District filed with the Trustee at the time that any prepayment is paid to the Trustee pursuant to the Installment Purchase Contract, shall deposit in the Prepayment Account the amount of such prepayment. All money in the Prepayment Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest and principal and any applicable premium evidenced and represented by such Certificates to be prepaid on their respective prepayment dates.

(d) Transfers to Reserve Fund. If, following the deposits described in Sections 3.06(a), 3.06(b) and 3.06(c) hereof, (A) moneys remain in the Installment Payment Fund and (B) the balance in the Reserve Fund is less than the Reserve Requirement, the notice of which deficiency shall have been given by the Trustee to the District, or (C) the balance in a reserve fund



established for any Parity Obligations is less than the reserve requirement established for such Parity Obligations, the notice of which deficiency shall have been given to the District, or (D) if the Certificate Reserve Policy or any reserve surety bond for any Parity Obligations has been drawn upon to make delinquent payments, the notice of which deficiency shall have been given to the District, the Trustee shall restore such deficiency by transfers of moneys from the Installment Payment Fund for deposit in the Reserve Fund and for deposit in the reserve fund established for such Parity Obligations, in accordance with the terms hereof and of such Parity Obligations, without preference or priority, and in the event of any insufficiency of such moneys, ratably without any discrimination or preference.

**Section 3.07. Held in Trust.**

The moneys and investments held by the Trustee under Sections 3.04, 3.05 and 3.06 are irrevocably held in trust for the benefit of the Owners, and, in the case of the Rebate Fund established pursuant to Section 3.11 below, for payment as required to the United States Treasury, and for the purposes herein specified, and such moneys, and any income or interest earned thereon, shall be expended only as provided in this Trust Agreement, and shall not be subject to levy or attachment or lien by or for the benefit of any creditor of the District, the Trustee or the Corporation, or any of them.

**Section 3.08. Commingling of Moneys in Funds.**

The Trustee at its sole discretion may, and upon the written request of the District shall, commingle any of the funds held by it pursuant to this Trust Agreement into a separate fund or funds for investment purposes only; provided, however, that all funds or accounts held by the Trustee hereunder shall be accounted for separately notwithstanding such commingling by the Trustee.

**Section 3.09. Arbitrage Covenant.**

The District and the Corporation hereby covenant with the Owners of the Certificates that, notwithstanding any other provision of this Trust Agreement, they will make no use of the proceeds of the Certificates which would cause the Certificates to be “arbitrage bonds” subject to federal income taxation by reason of Section 148 of the Internal Revenue Code of 1986, as amended. The Trustee hereby covenants with the Owners of the Certificates that it will comply with the express provisions of this Trust Agreement and will follow the written directions of the District and, so long as the Trustee shall have complied with the written instructions of the District as provided in Section 3.11 hereof with respect to making any rebate indicated therein to the United States, the Trustee shall conclusively be deemed to have complied with its obligations hereunder and shall not be liable if the Certificates become arbitrage bonds.

**Section 3.10. Use of Money in the Acquisition Fund.**

The Trustee hereby agrees to establish and maintain the Acquisition Fund until the completion of the Acquisition of the Project. All money in the Acquisition Fund shall be held by the Trustee in trust and shall be applied by the Trustee, along with certain other funds of the District, for the payment of Acquisition Costs of certain improvements relating to the Project and the expenses incidental thereto (including reimbursement to the District for any such costs or

expenses theretofore paid by it for the account of the Corporation whether or not paid prior to the date hereof). Except for the foregoing specified transfers, before any payment is made from the Acquisition Fund by the Trustee, the District shall file with the Trustee a Certificate of the District in the form attached hereto as Appendix B.

Upon receipt of each such Certificate of District, the Trustee shall, so long as the Trustee does not have actual knowledge of or has not received written notice that the District or the Corporation is then in default under the Installment Purchase Contract or hereunder, pay the amount set forth therein as directed by the terms thereof from moneys on deposit in the Acquisition Fund, except that the Trustee shall not make any such payment of Acquisition Costs if it has received a stop notice or any other notice of any lien, right to lien or attachment upon, or claim affecting the right to receive payment of, any of the money to be so paid which has not been released or will not be released simultaneously with such payment, other than materialmen's or mechanics' liens accruing by mere operation of law or a notice from the Corporation stating that the District is not authorized to act as agent for the Corporation with respect to the matter described in such Certificate of the District. Each such requisition shall be sufficient evidence to the Trustee of the facts stated therein and the Trustee shall have no duty to confirm the accuracy of such facts.

Unless the Insurer otherwise directs, upon the occurrence and continuance of an Event of Default or an event which with notice or lapse of time would (if not cured) constitute an Event of Default, amounts on deposit in the Acquisition Fund shall not be disbursed, but shall instead be applied to the payment of principal of or interest with respect to, or prepayment price of the Certificates.

When the Acquisition of the Project has been completed to the satisfaction of the District or when the District determines that a portion of the Project will not be Acquired, the District shall deliver a Certificate of the District to the Trustee stating the fact and date of the completion of such improvements, and stating that all the Acquisition Costs and the expenses incidental thereto have been determined and paid (or that such claims and expenses have been paid less specified claims which are subject to dispute and for which a retention in the Acquisition Fund is to be maintained in the full amount of such claims until such dispute is resolved). Upon receipt of such certificate, the Trustee shall transfer (but less the amount of such retention) first to the Reserve Fund until the amount therein equals the Reserve Requirement, and thereafter to the Installment Payment Fund all remaining moneys in the Acquisition Fund, to be credited to the payment of the Installment Payments as provided herein. In the event the Acquisition Fund has not been depleted by the date which is three years after the Closing Date, the District shall provide the Trustee with an opinion of nationally recognized bond counsel to the effect that the investment of such remaining funds shall not adversely affect the tax-exempt status of the Certificates.

### **Section 3.11. Rebate of Excess Investment Earnings to United States**

The District covenants to calculate the amount of, and to rebate to the United States, excess investment earnings, all in accordance with the Regulations. The Trustee shall not be responsible for enforcing compliance with such rebate requirements.

(a) Obligation to Calculate Excess Investment Earnings. The District shall calculate or cause to be calculated, and shall provide, or cause to be provided, written notice

to the Trustee of the excess investment earnings (as defined in the Code, “Excess Investment Earnings”) at such times and in such manner as may be required pursuant to the Code. The District shall inform the Trustee how frequently calculations are to be made, and shall ensure that a copy of all such calculations which indicate a payment is required is given promptly to the Trustee.

(b) Rebate to United States. The District agrees to deposit with the Trustee, promptly upon the receipt of any calculations made pursuant to the preceding subsection (a), the amount of Excess Investment Earnings so calculated. The Trustee shall deposit all amounts paid to it for such purpose by the District in the Rebate Fund, which the Trustee shall establish when so directed by the District. The Trustee shall pay to the United States of America from the amounts on deposit in the Rebate Fund such amounts as shall be identified pursuant to written notice filed with the Trustee by the District for such purpose from time to time. Payments to the United States of America shall be made to the address prescribed by the Regulations as the same may be from time to time in effect with such reports and statements as may be prescribed by such Regulations. Following payment in full to the United States of America of all amounts due and owing under this subsection (b) at the direction of the District, the Trustee shall withdraw from the Rebate Fund and transfer to the District all amounts remaining on deposit in the Rebate Fund.

(c) Investment Transactions. The District shall assure that Excess Investment Earnings are not paid or disbursed except as required in this Section 3.11. To that end the District shall assure that investment transactions are on an arm’s-length basis. In the event that Qualified Investments consist of certificates of deposit or investment contracts, investment in such Qualified Investments shall be made in accordance with the procedures described in the Regulations.

(d) Maintenance of Records. The District shall keep, and retain for a period of six (6) years following the retirement of the Certificates, records of the determinations made pursuant to this Section 3.11.

(e) Engagement of Professional Services. In order to provide for the administration of this Section 3.11, the District may provide for the employment of independent attorneys, accountants and consultants compensated on such reasonable basis as the District may deem appropriate.

(f) Modification of this Section. Any of the provisions of this Section 3.11 may be amended, modified or deleted in any manner whatsoever in the event that the District shall cause to be filed with the Trustee written directions making such amendment, modification or deletion, which written directions are accompanied by an opinion of nationally recognized bond counsel stating that such amendment, modification or deletion will not cause interest with respect to the Certificates to be includable in gross income of the Owners for federal income tax purposes. The Trustee shall be deemed conclusively to have complied with such provisions of this Section if it follows the directions of the District, and shall have no liability or responsibility to enforce compliance by the District with the terms of the guidance for compliance with the rebate requirements.

## **ARTICLE IV PREPAYMENT OF CERTIFICATES**

### **Section 4.01. Terms of Prepayment.**

(a) The Certificates are subject to extraordinary prepayment on any Interest Payment Date upon notice as hereinafter provided, as a whole or in part (on a pro-rata basis) in integral multiples of \$5,000, from prepaid Installment Payments made by the District pursuant to Section 6.01(a) of the Installment Purchase Contract from funds received by the District due to a casualty loss or governmental taking of the Enterprise or portions thereof by eminent domain proceedings, under the circumstances and upon the conditions and terms prescribed herein and in the Installment Purchase Contract, at a prepayment price equal to the sum of the principal amount evidenced thereby plus accrued interest accrued to the date fixed for prepayment of the Certificates, without premium.

(b) The Certificates shall not be subject to optional prepayment prior to September 1, 20\_\_\_. The Certificates are subject to prepayment, in whole or in part in any integral multiple of \$5,000, at the option of the District on any date on or after September 1, 20\_\_, from any available source of funds, at the prepayment price equal to the principal amount of the Certificates to be prepaid from the proceeds of such prepayment, in each case together with accrued interest thereon to the prepayment date, without premium.

### **Section 4.02. Selection of Certificates for Prepayment; Purchase in Lieu of Prepayment.**

In the event that part, but not all, of the Certificates are to be prepaid (other than pursuant to sinking fund payments), the Certificates to be prepaid shall be selected by the Trustee from maturities designated by the District in writing, and by lot within a maturity.

The District may at any time buy Certificates at public or private sale at a price which, inclusive of brokerage fees, will not exceed the par amount of the Certificates so purchased, plus any applicable premium and any Certificates so purchased shall be tendered to the Trustee for cancellation. Term Certificates so purchased may be credited against sinking fund payments as set forth in Section 4.01 hereof.

### **Section 4.03. Notice of Prepayment; Rescission.**

When prepayment is authorized or required pursuant to this Article, the Trustee shall give notice (the "Prepayment Notice"), at the expense of the District, of the prepayment of the Certificates. Such Prepayment Notice shall specify: (a) the Certificates or designated portions thereof (in the case of prepayment of the Certificates in part but not in whole) which are to be prepaid, (b) the date of prepayment, (c) the place or places where the prepayment will be made, including the name and address of any paying agent, (d) the prepayment price, (e) the CUSIP numbers (if any) assigned to the Certificates to be prepaid, (f) the Certificate numbers of the Certificates to be prepaid in whole or in part and, in the case of any Certificate to be prepaid in part only, the amount of such Certificate to be prepaid, and (g) the original issue date, interest rate and stated maturity date of each Certificate to be prepaid in whole or in part. Such Prepayment Notice shall further state that on the specified date there shall become due and payable upon each Certificate or portion thereof being prepaid the prepayment price, together with interest accrued to

the prepayment date, and that from and after such date interest with respect thereto shall cease to accrue and be payable. Such notice in respect of optional or extraordinary prepayment shall not be provided unless there has been deposited with the Trustee funds sufficient to pay such prepayment price (except in the case of prepayment resulting from the issuance of refunding obligations).

Subject to the provisions stated above, the Trustee shall take the following actions with respect to such Prepayment Notice:

(a) At least thirty (30) but not more than forty-five (45) days prior to the prepayment date, the Trustee shall cause Prepayment Notices to be given to the respective Owners of Certificates designated for prepayment by first class mail, postage prepaid, at their addresses appearing on the Certificate Register maintained by the Trustee pursuant to Section 2.07 hereof.

(b) At least thirty (30) days prior to the prepayment date, such Prepayment Notice shall be given by (i) first class mail, postage prepaid, (ii) telephonically confirmed facsimile transmission, or (iii) overnight delivery service, to each of the Securities Depositories.

(c) At least thirty (30) days prior to the prepayment date, such Prepayment Notice shall be given by (i) first-class mail, postage prepaid, (ii) overnight delivery service, or (iii) telecopy or facsimile transmission, to one of the Information Services selected by the District.

The District shall have the right to rescind any optional prepayment by written notice to the Trustee on or prior to the date fixed for prepayment. Any such notice of optional prepayment shall be canceled and annulled if for any reason funds will not be or are not available on the date fixed for prepayment for the payment in full of the Certificates then called for prepayment, and such cancellation shall not constitute an Event of Default under this Trust Agreement. The District, the Corporation and the Trustee shall have no liability to the Owners or any other party related to or arising from such rescission of prepayment. The Trustee shall mail notice of such rescission of prepayment in the same manner as the original notice of prepayment was sent.

Neither failure to receive any Prepayment Notice nor any defect in such Prepayment Notice so given shall affect the sufficiency of the proceedings for the prepayment of such Certificates. Each check or other payment method used by the Trustee for the purpose of repaying Certificates shall bear the CUSIP number identifying, by issue and maturity, the Certificates being prepaid with the proceeds of such check or other transfer.

#### **Section 4.04. Partial Prepayment of Certificates.**

Upon surrender of any Certificate prepaid in part only, the Trustee shall execute and deliver to the Owner thereof a new Certificate or Certificates equal to the unprepaid principal amount of the Certificate surrendered.

#### **Section 4.05. Effect of Prepayment.**

Notice having been given as aforesaid, and the moneys for the prepayment, including interest to the applicable prepayment date of the Certificates to be prepaid, having been

set aside in the Prepayment Account, the portion of Certificates to be prepaid shall become due and payable on said prepayment date, and, upon presentation and surrender thereof at the office or offices specified in said notice, said Certificates shall be paid at the unpaid principal amount and premium, if any, with respect thereto, plus any unpaid and accrued interest to said prepayment date.

If, on said prepayment date, moneys sufficient for the prepayment of all the Certificates to be prepaid, together with interest to said prepayment date, shall be held by the Trustee so as to be available therefor on such prepayment date, and, if notice of prepayment thereof shall have been given as aforesaid, then, from and after said prepayment date, interest with respect to the portion of Certificates to be prepaid shall cease to accrue and become payable. If said moneys shall not be so available on said prepayment date, interest with respect to such portion of Certificates shall continue to be payable until paid at the same rates as they would have been payable had they not been called for prepayment.

## **ARTICLE V COVENANTS OF THE DISTRICT AND THE CORPORATION**

### **Section 5.01. Compliance with Trust Agreement.**

The Corporation and the District will not suffer or permit any default by them to occur hereunder, but will faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms hereof required to be complied with, kept, observed and performed by them.

### **Section 5.02. Compliance with Installment Purchase Contract.**

The District and the Corporation will faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms contained in the Installment Purchase Contract required to be complied with, kept, observed and performed by them and will enforce the Installment Purchase Contract against the other party thereto in accordance with its terms.

### **Section 5.03. Observance of Laws and Regulations.**

The Corporation and the District will faithfully comply with, keep, observe and perform all valid and lawful obligations or regulations now or hereafter imposed on them by contract, or prescribed by any law of the United States of America or of the State of California, 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 them, including their right to exist and carry on their respective businesses, 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 5.04. Other Liens.**

The District will keep the Enterprise and all parts thereof free from judgments and materialmen's and mechanics' liens and free from all claims, demands, encumbrances and other liens of whatever nature or character, and free from any claim or liability which may hamper the

District in conducting its business or utilizing the Enterprise, and the District shall defend against any and all actions or proceedings in which the validity hereof is or might be questioned, or may pay or compromise any claim or demand asserted in any such actions or proceedings. So long as any Certificates are Outstanding, neither the Corporation nor the District will create or suffer to be created any pledge of or lien on the Installment Payments and the Net Revenues other than as permitted hereunder or under the Installment Purchase Contract.

**Section 5.05. Prosecution and Defense of Suits.**

The District will promptly, upon request of the Trustee or any Owner, take such action from time to time as may be necessary or proper to remedy or cure any cloud upon or defect in the title to the Enterprise or any part thereof, whether now existing or hereafter developing, will prosecute all actions, suits or other proceedings as may be appropriate for such purpose and will indemnify and save the Trustee and every Owner harmless from all cost, damage, expense or loss, including attorneys' fees, which they or any of them may incur by reason of any such cloud, defect, action, suit or other proceeding.

**Section 5.06. Accounting Records and Statements.**

The Trustee will keep proper accounting records in which complete and correct entries shall be made of all transactions made by the Trustee relating to the receipt, deposit and disbursement of the Installment Payments, and such accounting records shall be available for inspection by the Corporation, the District or any Owner or his agent duly authorized in writing on any Business Day upon reasonable notice at reasonable hours and under reasonable conditions prescribed by the Trustee. Not later than the fifteenth day of each month commencing February 15, 2020, and continuing so long as any Certificates are Outstanding, the Trustee will furnish to the Corporation, the District and any Owner who may so request in writing (at the expense of such Owner) a statement covering the receipts, deposits and disbursements of the Installment Payments for the preceding monthly period.

**Section 5.07. Further Assurances.**

Whenever and so often as requested to do so by the Trustee or any Owner, the Corporation and the District will promptly execute and deliver or cause to be executed and delivered all such other and further assurances, documents or instruments 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 Trustee and the Owners all advantages, benefits, interests, powers, privileges and rights conferred or intended to be conferred upon them by this Trust Agreement, the Installment Purchase Contract or the Assignment Agreement.

**ARTICLE VI  
DEFAULT AND LIMITATIONS OF LIABILITY**

**Section 6.01. Action on Default or Acceleration.**

If an Event of Default under Section 7.01 of the Installment Purchase Contract shall happen, then such Event of Default shall constitute an Event of Default hereunder. In each and every such case during the continuance of such Event of Default, with the prior written consent of

the Insurer the Trustee may, upon being indemnified to its satisfaction, and at the written direction of the Insurer or (with the prior written consent of the Insurer) at the written direction of the Owners of a majority in aggregate principal amount of the Certificates then Outstanding the Trustee shall, upon notice given in writing to the District and the Trustee exercise the remedies provided to the Corporation in Section 7.01 of the Installment Purchase Contract.

Upon the occurrence of an Event of Default hereunder, with the prior written consent of the Insurer the Trustee may, upon being indemnified to its satisfaction, and at the written direction of the Insurer or (with the prior written consent of the Insurer) at the written direction of the Owners of a majority in aggregate principal amount of the Certificates then Outstanding the Trustee shall, declare the principal and interest with respect to all such Certificates immediately due and payable and such principal and interest shall thereupon be due and payable immediately. The Trustee shall apply amounts on deposit in the funds and accounts created under the Installment Purchase Contract and the Trust Agreement in accordance with Section 6.09 hereof.

Immediately upon having actual knowledge of the occurrence of an Event of Default, but in no event later than five (5) Business Days following actual knowledge of such occurrence, the Trustee shall give notice of such Event of Default to the Insurer and to the District by telephone confirmed in writing. Such notice shall also state whether the principal of the Certificates has been declared to be or have immediately become due and payable. The Trustee shall give such notice to the Owners in the same manner as provided herein for notices of prepayment of the Certificates, which shall include the statement that interest with respect to the Certificates shall cease to accrue from and after the date, if any, on which the Trustee declares the Certificates to become due and payable under the preceding paragraph (but only to the extent that principal and any accrued, but unpaid, interest with respect to the Certificates is actually paid on such date).

#### **Section 6.02. Other Remedies of the Trustee.**

With the prior written consent of the Insurer the Trustee may, and at the written direction of the Insurer or (with the prior written consent of the Insurer) and subject to the provisions of Section 6.08 hereof, at the written direction of the Owners of a majority in aggregate principal amount of the Certificates then Outstanding the Trustee shall, upon being indemnified to its satisfaction:

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

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

(c) intervene in judicial proceedings that affect the Certificates or the security therefor; or



(d) seek the appointment of a receiver or other third party to operate the Enterprise and collect Revenues.

**Section 6.03. Non-Waiver.**

A waiver of any default or breach of duty or contract by the Trustee or the Owners shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Trustee or the Owners to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Trustee or the Owners by law or by this article may be enforced and exercised from time to time and as often as shall be deemed expedient by the Trustee.

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

**Section 6.04. Remedies Not Exclusive.**

No remedy herein conferred upon or reserved to the Trustee is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by any law.

**Section 6.05. No Liability by the Corporation to the Owners.**

The Corporation shall not have any obligation or liability to the Owners with respect to the payment when due of the Installment Payments by the District, or with respect to the performance by the District of the other agreements and covenants required to be performed by it contained in the Installment Purchase Contract or herein, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained herein.

**Section 6.06. No Liability by the District to the Owners.**

Except for the payment when due of the Installment Payments and the interest thereon, and the performance of the other agreements and covenants required to be performed by it contained in the Installment Purchase Contract or herein, the District will not have any obligation or liability to the Owners with respect to this Trust Agreement or the preparation, execution, delivery or transfer of the Certificates or the disbursement of the Installment Payments, and the interest thereon, by the Trustee, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained herein.

**Section 6.07. No Liability by the Trustee to the Owners.**

Except for the duty of the Trustee to make payments of principal, prepayment premiums and interest with respect to the Certificates from moneys received from the District, the Trustee will not have any obligation or liability to the Owners with respect to the payment when due of the Installment Payments and the interest thereon by the District, or with respect to the performance by the District of the other agreements and covenants required to be performed by it contained in the Installment Purchase Contract or herein.

**Section 6.08. Limitation on Owners' Right to Bring Suit.**

No Owner of any Certificate shall have any right to institute any proceeding, judicial or otherwise, under or with respect to this Trust Agreement, or for the appointment of a receiver or trustee or for any other remedy hereunder, at law or in equity, unless:

- (1) such Owner has previously given written notice to the Trustee of a continuing event of default;
- (2) the owners of not less than a majority in principal amount of the Certificates Outstanding shall have obtained the prior written consent of the Insurer and made written request to the Trustee to institute proceedings in respect of such event of default in its own name as Trustee hereunder;
- (3) such Owner or Owners have offered to the Trustee reasonable indemnity, satisfactory to the Trustee, against the costs, expenses and liabilities to be incurred in compliance with such request; and
- (4) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding.

It being understood and intended that no one or more Owners shall have any right in any manner whatever by virtue of, or by availing of, any provision of this Trust Agreement to affect, disturb or prejudice the lien of this Trust Agreement or the rights of any other Owners or to obtain or to seek to obtain priority or preference over any other Owners or to enforce any right under this Trust Agreement, except in the manner herein provided and for the equal and ratable benefit of all Certificates. Notwithstanding the foregoing, the Owner of any Certificate shall have the right which is absolute and unconditional to receive payment of interest on such Certificate when due in accordance with the terms thereof and hereof and the principal of such Certificate at the stated maturity thereof and to institute suit for the enforcement of any such payment in accordance with the provisions of this Trust Agreement and such rights shall not be impaired without the consent of such Owner.

**Section 6.09. Application of Funds Upon Default.**

All monies received by the Trustee or by any receiver pursuant to any right given or action taken under the provisions of this Article VI or under the provisions of Article VII of the Installment Purchase Contract shall, after payment of the reasonable costs and fees of, and the reasonable expenses (including legal fees and expenses), liabilities and advances incurred or made

by the Trustee in and about the performance of its powers and duties hereunder, be deposited in the Installment Payment Fund and all moneys so deposited during the continuance of an Event of Default (other than moneys for the payment of Certificates which have previously matured or otherwise become payable prior to such Event of Default or for the payment of interest due prior to such Event of Default), together with all moneys in the Funds maintained by the Trustee under Article III hereof, shall be applied as follows:

(a) Unless the principal of all Certificates shall have become or shall have been declared due and payable, all such moneys shall be applied:

First: To the payment to the Persons entitled thereto of all installments of interest then due on the Certificates, with interest on overdue installments, if lawful, at the rate per annum borne by the Certificates, in the order of the maturity of the installments of such interest, and, if the amount available shall not be sufficient to pay in full any particular installment of interest, then to the payment ratably according to the amounts due on such installment, to the Persons entitled thereto without any discrimination or privilege;

Second: To the payment to the Persons entitled thereto of the unpaid principal of any of the Certificates which shall have become due (other than Certificates called for prepayment for the payment of which moneys are held pursuant to the provisions of this Trust Agreement), with interest on such Certificates at their rate from the respective dates upon which they became due, in the order of their due dates, and, if the amount available shall not be sufficient to pay in full Certificates due on any particular date, together with such interest, then to the payment ratably, according to the amount of principal and interest due on such date, to the Persons entitled thereto without any discrimination or privilege;

Third: To the payment of amounts then due and owing to the Insurer under the Insurance Policy; and

Fourth: To the payment of amounts, if any, payable to the United States Treasury in respect of rebate;

(b) If the principal of all the Certificates shall have become due or shall have been declared due and payable, all such moneys shall be applied:

First: To the payment of the principal and interest then due and unpaid upon the Certificates, with interest on overdue interest and principal, as aforesaid, without preference or priority over interest or of interest over principal or of any installment of interest over any other installment of interest, or of any Certificates over any other Certificates, ratably, according to the amounts due respectively for principal and interest, to the Persons entitled thereto without any discrimination or privilege;

Second: To the payment of amounts then due and owing to the Insurer under the Insurance Policy; and

Third: To the payment of amounts, if any, payable to the United States Treasury in respect of rebate.

Whenever the Trustee shall apply such moneys (which shall not include the application of moneys upon the occurrence of any acceleration pursuant to the provisions hereof), it shall fix the date (which shall be an Interest Payment Date unless it shall deem another date more suitable) upon which date such application is to commence and upon such date interest on the amounts of principal and interest to be paid on such date shall cease to accrue. The Trustee shall give such notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date and of the special record date in accordance with Article II hereof. The Trustee shall not be required to make payment to the holder of any unpaid Certificate until such Certificate shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

**Section 6.10. Rights of the Insurer; Insurer as Owner.**

Anything in this Trust Agreement to the contrary notwithstanding, upon the occurrence and continuation of an Event of Default, the Insurer is entitled to control and direct the enforcement of all rights and remedies granted hereunder to the Owners, or to the Trustee for the benefit of the Owners. The rights granted to the Insurer hereunder shall be deemed terminated and may not be exercisable by the Insurer during any period during which the Insurer is in default under the Insurance Policy. The Trustee may not waive any default or Event of Default without the Insurer's written consent.

Upon the occurrence and continuance of a default or an Event of Default, the Insurer shall be deemed to be the sole owner of the Certificates for all purposes under this Trust Agreement, including, without limitations, for purposes of exercising remedies and approving amendments.

**ARTICLE VII  
THE TRUSTEE; INSURANCE POLICY PROVISIONS; CERTIFICATE RESERVE  
POLICY PROVISIONS**

**Section 7.01. Trustee; Duties, Removal and Resignation.**

By executing and delivering the Trust Agreement, the Trustee accepts the duties and obligations of the Trustee provided in the Trust Agreement, but only upon the terms and conditions set forth in the Trust Agreement. The District (so long as an Event of Default has not occurred) may, and shall (i) if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Insurer, or (ii) (with the prior written consent of the Insurer) the Owners of a majority in aggregate principal amount of all Certificates Outstanding shall, by thirty (30) days prior written request, remove the Trustee initially a party hereto, and any successor thereto, and in such event, or in the event the Trustee resigns, the District shall appoint a successor Trustee acceptable to the Insurer, but any such successor shall be (i) a national banking association that is supervised by the Office of the Comptroller of the Currency and has at least \$250 million of assets, (ii) a state-chartered commercial bank that is a member of the Federal Reserve System and has at least \$1 billion of assets, or (iii) otherwise approved by the Insurer in writing. If such

bank, national banking association, corporation or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of this Section the combined capital and surplus of such bank, national banking association or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of conditions so published.

The Trustee may at any time resign by giving written notice to the District and the Insurer, and by giving to the Certificate Owners notice by mailing a notice of such resignation to their addresses appearing in the Certificate register. Upon receiving any such notice of resignation, the District shall promptly appoint a successor Trustee acceptable to the Insurer by an instrument in writing; provided, however, that in the event that the District does not appoint a successor Trustee within thirty (30) days following receipt of such notice of resignation, the resigning Trustee may petition an appropriate court having jurisdiction to appoint a successor Trustee. No removal, resignation or termination of the Trustee shall take effect until a successor, acceptable to the Insurer, shall be qualified and appointed.

Any Trustee which shall resign or be removed pursuant to this Section shall be entitled to compensation in accordance with Section 7.02 and to reimbursement for all reasonable and proper expenses and advances incurred and not previously reimbursed for its activities in connection with the Trust Agreement and the Installment Purchase Contract and for any indemnification due pursuant to the Trust Agreement or the Installment Purchase Contract and not previously paid. Any Trustee which resigns or is removed, upon payment of its unpaid compensation and expenses hereunder, shall fully discharge all the right, title and interest of the retiring Trustee and the accounts and funds hereunder shall vest in said successor Trustee, and such retiring Trustee shall promptly pay over, assign and deliver to the successor Trustee any money or other property then held by such Trustee hereunder, and deliver any and all records, or copies thereof, in respect of the funds and accounts held hereunder which it may have.

### **Section 7.02. Compensation of the Trustee.**

The District shall pay from time to time, upon receipt of a statement, to the Trustee reasonable compensation for the Trustee's services and shall reimburse the Trustee for all its reasonable advances and expenditures, including but not limited to advances to and fees and expenses of independent appraisers, accountants, consultants, counsel, agents and attorneys-at-law or other experts employed by it in the exercise and performance of its powers and duties under the Trust Agreement. Such compensation and reimbursement shall be paid promptly by the District. The lien of the Trustee on amounts held by it under the Trust Agreement for its services rendered under the Trust Agreement shall be superior to the rights of the Certificate Owners to receive scheduled payments of principal and interest with respect to their Certificates; provided that the Trustee shall have no lien on moneys in the Prepayment Account or the Rebate Fund.

The District shall, under the Installment Purchase Contract, hold harmless and indemnify the Trustee for all costs, claims, expenses and liabilities incurred by or asserted against the Trustee in the performance of its duties under this Trust Agreement or any related document, including any such reasonable costs, claims, expenses and liabilities, including legal fees and expenses, incurred in the course of defending itself against any claims or actions or enforcing any remedies under this Trust Agreement or any related document. Any such indemnity shall not

extend to any costs, claims, expenses or liabilities adjudicated to have been caused by the negligence or willful misconduct of the Trustee. The indemnification of the Trustee under this Trust Agreement shall extend to its directors, officers, employees and agents. The obligations of the Corporation and the District under this Section shall survive the payment of the Certificates and the discharge of this Trust Agreement and the removal or resignation of the Trustee.

### **Section 7.03. Protection to Trustee.**

The District shall indemnify, protect and hold the Trustee harmless and the Trustee shall incur no liability for acting upon the direction of the Insurer or any notice, resolution, consent, order, certificate, report or other paper or document reasonably believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee, in its discretion, may consult with counsel, who may be counsel to the District or the Corporation, with regard to legal questions, and the opinion or advice of such counsel, shall be full and complete authorization and protection in respect of any action taken or suffered by it under the Trust Agreement in good faith in accordance therewith. Whenever in the administration of its duties under the Trust Agreement, the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Trust Agreement, such matter (unless other evidence in respect thereof be specifically prescribed in the Trust Agreement) may, in the absence of bad faith on the part of the Trustee, be deemed to be conclusively proved and established by the certificate of an Authorized Officer of the District and such certificate shall be full warranty to the Trustee for any action taken or suffered under the provisions of the Trust Agreement upon the faith thereof, but in its discretion the Trustee may, in lieu thereof (but shall not be obligated to), accept other evidence of such matter.

The Trustee may in good faith buy, sell, own, hold and deal in any of the Certificates executed pursuant to the Trust Agreement, and may join in any action which any Owner may be entitled to take with like effect as if the Trustee were not a party to the Trust Agreement. The Trustee, either as principal or agent, may also engage in or be interested in any financial or other transaction with the Corporation or the District, and may act as depository, trustee, or agent for any committee or body of Owners of Certificates or other obligations of the District as freely as if it were not Trustee under the Trust Agreement.

The recitals, statements and representations contained in this Trust Agreement or in the Certificates, save only the Trustee's execution of the Certificates, shall be taken and construed as made by and on the part of the District, and not by the Trustee, and the Trustee does not assume, and shall not have, any responsibility or obligation for the correctness of any thereof. The Trustee shall not be deemed to make any representations with respect to the security afforded by this Trust Agreement, the Installment Purchase Contract or the Assignment Agreement. The Trustee may execute any of the trusts or powers hereof and perform the duties required of it under the Trust Agreement by or through attorneys, agents, or receivers, and shall be entitled to advice of counsel concerning all matters of trust and its duty under the Trust Agreement. The Trustee shall be fully reimbursed by the District for reasonable expenses incurred in hiring attorneys, agents or receivers in connection with the performance of its obligations under the Trust Agreement.

Before taking any remedial action hereunder the Trustee may require that a satisfactory indemnity bond or other indemnity satisfactory to the Trustee be furnished for the reimbursement of all reasonable expenses to which it may be put and to protect it against all liability which may be incurred in connection with the taking of such action, except liability which is adjudicated to have resulted from its negligence or willful misconduct; provided, however, the Trustee shall not seek such indemnity prior to making payments on the Certificates. The Trustee, prior to the occurrence of an Event of Default, and after the curing or waiving of all Events of Default which may have occurred, undertakes to perform only such duties as are specifically set forth in this Trust Agreement. The Trustee shall, during the existence of any Event of Default (which has not been cured or waived), exercise such of the rights and powers vested in it by this Trust Agreement, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use in the conduct of such person's own affairs.

The Trustee shall not be deemed to have knowledge of an event of default under the Installment Purchase Contract (except in connection with a failure of the District to make Installment Payments when due) until it has actual knowledge thereof, or until notified in writing of such event of default. In acting as Trustee hereunder, the Trustee acts solely in its capacity as Trustee hereunder and not in its individual or personal capacity, and all persons, including without limitation the Owners, the District and the Corporation, having any claim against the Trustee shall look only to the funds and accounts held by the Trustee hereunder for payment, except as otherwise provided herein. Under no circumstances shall the Trustee be liable in its individual or personal capacity for the obligations evidenced by the Certificates.

Every provision of this Trust Agreement, the Installment Purchase Contract and the Assignment Agreement relating to the conduct or liability of the Trustee shall be subject to the provisions of this Trust Agreement, including without limitation, this Article. The Trustee is authorized and directed to execute in its capacity as Trustee the Assignment Agreement. The Trustee shall not be liable with respect to any action taken or not taken by it in accordance with the direction of the Owners of a majority (or other percentage provided for herein) in aggregate principal amount of Certificates at the time Outstanding relating to the exercise of any right or remedy available to the Trustee hereunder or under the Installment Purchase Contract or any other trust or power conferred upon the Trustee.

The Trustee makes no representation or warranty, either express or implied, as to the value, design, condition, merchantability or fitness for any particular purpose or fitness for the use contemplated by the District or the Corporation of the Project or any portion thereof, or any other representation or warranty with respect to the Project or any portion thereof. In no event shall the Trustee be liable for incidental, indirect, special or consequential damages in connection with this Trust Agreement or the Installment Purchase Contract or the existence, furnishing or functioning of the Project or the District's use of the Project. The Trustee shall have no responsibility or liability with respect to any information, statements or recital in any offering memorandum or other disclosure material prepared or distributed with respect to the issuance of these Certificates.

The Trustee agrees to accept and act upon instructions or directions pursuant to this Trust Agreement sent by unsecured e-mail, facsimile transmission or other similar unsecured electronic methods, provided, however, that, the Trustee shall have received an incumbency

certificate listing persons designated to give such instructions or directions and containing specimen signatures of such designated persons, which such incumbency certificate shall be amended and replaced whenever a person is to be added or deleted from the listing. If the District elects to give the Trustee e-mail or facsimile instructions (or instructions by a similar electronic method) and the Trustee in its discretion elects to act upon such instructions, the Trustee's understanding of such instructions shall be deemed controlling. The Trustee shall not be liable for any losses, costs or expenses arising directly or indirectly from the Trustee's reliance upon and compliance with such instructions notwithstanding such instructions conflict or are inconsistent with a subsequent written instruction. The District agrees to assume all risks arising out of the use of such electronic methods to submit instructions and directions to the Trustee, including without limitation the risk of the Trustee acting on unauthorized instructions, and the risk of interception and misuse by third parties.

The Trustee shall not be considered in breach of or in default in its obligations hereunder or progress in respect thereto in the event of enforced delay ("unavoidable delay") in the performance of such obligations due to unforeseeable causes beyond its control and without its fault or negligence, including, but not limited to, Acts of God or of the public enemy or terrorists, acts of a government, acts of the other party, fires, floods, epidemics, quarantine restrictions, strikes, freight embargoes, earthquakes, explosion, mob violence, riot, inability to procure or general sabotage or rationing of labor, equipment, facilities, sources of energy, material or supplies in the open market, litigation or arbitration involving a party or others relating to zoning or other governmental action or inaction pertaining to the Project, malicious mischief, condemnation, and unusually severe weather or delays of suppliers or subcontractors due to such causes or any similar event and/or occurrences beyond the control of the Trustee.

The Trustee shall not be liable in connection with the performance of its duties hereunder except for its own negligence or willful misconduct.

#### **Section 7.04. Payment from Trust Estate Only.**

All payments to be made by the Trustee under and pursuant to this Trust Agreement shall be made only from the corpus, income and proceeds of the funds and accounts hereunder and only to the extent that the Trustee shall have received sufficient contribution, income and proceeds in accordance with the terms of this Trust Agreement.

#### **Section 7.05. Merger or Consolidation.**

Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided that such company shall be eligible under Section 7.01 hereof, shall be the successor to the Trustee without the execution or filing of any paper or further act, anything herein to the contrary notwithstanding.

#### **Section 7.06. Claims on Insurance Policy.**

So long as the Insurance Policy remains in effect, the Trustee shall comply with all of the terms and provisions thereof as may be required to submit and enforce a claim thereunder.



Without limiting the generality of the foregoing, the Trustee shall comply with the following provisions of this Section 7.06.

(a) In the event that principal and/or interest due with respect to the Certificates are paid by the Insurer under the Insurance Policy, the Certificates shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the District, the assignment and pledge of the trust estate and all covenants, agreements and other obligations of the District to the Owners shall continue to exist and shall run to the benefit of the Insurer, and the Insurer shall be subrogated to the rights of such Owners including, without limitation, any rights that such owners may have in respect of securities law violations arising from the offer and sale of the Certificates.

(b) In the event that on the second Business Day prior to any payment date on the Certificates, the Trustee has not received sufficient moneys to pay all principal of and interest with respect to the Certificates due on the second following Business Day, the Trustee shall immediately notify the Insurer or its designee on the same Business Day by telephone or electronic mail, of the amount of the deficiency.

(c) If any deficiency is made up in whole or in part prior to or on the payment date, the Trustee shall so notify the Insurer or its designee.

(d) In addition, if the Trustee has notice that any Owner has been required to disgorge payments of principal of or interest with respect to the Certificates pursuant to a final, non-appealable order by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law, then the Trustee shall notify the Insurer or its designee of such fact by telephone or electronic mail, or by overnight or other delivery service as to which a delivery receipt is signed by a person authorized to accept delivery on behalf of the Insurer.

(e) The Trustee shall irrevocably be designated, appointed, directed and authorized to act as attorney-in-fact for the Owners of the Certificates as follows:

(i) If there is a deficiency in amounts required to pay interest and/or principal on the Certificates, the Trustee shall (A) execute and deliver to the Insurer, in form satisfactory to the Insurer, an instrument appointing the Insurer as agent and attorney-in-fact for such Owners in any legal proceeding related to the payment and assignment to the Insurer of the claims for interest on the Certificates, (B) receive as designee of the respective Owners (and not as Trustee) in accordance with the tenor of the Certificate Insurance Policy payment therefore from the Insurer, (C) segregate all such payments in a separate account (the "BAM Policy Payment Account") to only be used to make scheduled payments of principal of and interest on the Certificates, and (D) disburse the same to respective Owners;

(ii) The Trustee shall designate any portion of payment of principal with respect to the Certificates paid by the Insurer, whether by virtue of mandatory sinking fund redemption, maturity or other advancement of maturity, on its books as a reduction in the principal amount of Certificates registered to the then current

holder, whether DTC or its nominee or otherwise, and shall issue a replacement Certificate to the Insurer, registered in the name directed by the Insurer, in a principal amount equal to the amount of principal so paid (without regard to authorized denominations); provided that the Trustee's failure to so designate any payment or issue any replacement Certificate shall have no effect on the amount of principal or interest payable by the District with respect to any Certificate or the subrogation or assignment rights of the Insurer.

(f) Payments with respect to claims for interest on and principal with respect to the Certificates disbursed by the Trustee from proceeds of the Insurance Policy shall not be considered to discharge the obligation of the District with respect to such Certificates, and the Insurer shall become the owner of such unpaid Certificate and claims for the interest in accordance with the tenor of the assignment made to it under the provisions of the preceding paragraph or otherwise.

(g) Irrespective of whether any such assignment is executed and delivered, the District and the Trustee agree for the benefit of the Insurer that:

(i) They recognize that to the extent the Insurer makes payments directly or indirectly (e.g., by paying through the Trustee), on account of principal of or interest with respect to the Certificates, the Insurer will be subrogated to the rights of such Owners to receive the amount of such principal and interest from the District, with interest thereon, as provided and solely from the sources stated in the Trust Agreement and the Certificates; and

(ii) They will accordingly pay to the Insurer the amount of such principal and interest, with interest thereon as provided in the transaction documents and the Certificates, but only from the sources and in the manner provided therein for the payment of principal of and interest with respect to the Certificates to the Owners thereof, and will otherwise treat the Insurer as the owner of such rights to the amount of such principal and interest.

(h) Payments due to the Insurer under Installment Purchase Contract relating to the Insurance Policy shall be secured in such manner and have such priority in payment under the transaction documents as required by the Installment Purchase Contract. The Installment Purchase Contract and this Trust Agreement shall not be discharged until all payments owing to the Insurer by the terms of the Installment Purchase Contract shall have been paid in full, and such obligation shall expressly survive the discharge and defeasance in full of the Certificates.

#### **Section 7.07. Provisions Relating to Insurer.**

(a) Exercise of Rights. The rights granted to the Insurer under this Trust Agreement and the Installment Purchase Contract to request, consent to or direct any action are rights granted to it in consideration of its issuance of the Insurance Policy. Any exercise by the Insurer of its rights under the Insurance Policy, this Trust Agreement and the Installment Purchase Contract constitutes an exercise of the its contractual rights and shall not be construed or deemed to be taken for the benefit, or on behalf, of the Owners and such action does not evidence any position of the

Insurer, affirmative or negative, as to whether the consent of the Owners or any other person is required in addition to the consent of the Insurer.

(b) Failure to Make Claim Does Not Prohibit Payment. The Insurer shall be entitled to pay principal or interest with respect to the Certificates that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer (as such terms are defined in the Insurance Policy) and any amounts due with respect to the Certificates as a result of acceleration of the maturity thereof in accordance with the Trust Agreement, whether or not the Insurer has received a claim upon the Insurance Policy.

(c) Consent of Insurer in Addition to Owner Consent. Wherever any transaction document requires the consent of the Owners, the Insurer's consent shall also be required.

(d) Consent of Insurer in the Event of Insolvency. Any reorganization or liquidation plan with respect to the District must be acceptable to the Insurer. Each Owner shall appoint the Insurer as its agent and attorney-in-fact with respect to the Certificates and agree that the Insurer may at any time during the continuation of any proceeding by or against the District under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (an "Insolvency Proceeding") direct all matters relating to such Insolvency Proceeding, including without limitation, (A) all matters relating to any claim or enforcement proceeding in connection with an Insolvency Proceeding (a "Claim"), (B) the direction of any appeal of any order relating to any Claim, (C) the posting of any surety, supersedeas or performance bond pending any such appeal, and (D) the right to vote to accept or reject any plan of adjustment. In such circumstance, each Owner shall delegate and assign to the Insurer, to the fullest extent permitted by law, the rights of each Owner with respect to the Certificates in the conduct of any Insolvency Proceeding, including, without limitation, all rights of any party to an adversary proceeding or action with respect to any court order issued in connection with any such Insolvency Proceeding.

(e) Special Provisions for Insurer Default. If an Insurer Default occurs (as defined below) and is continuing, then, notwithstanding anything herein to the contrary, (i) if the Insurer has made payment under the Insurance Policy, it shall be treated like any other Owner of the Certificates for the purposes of giving any consent, and (2) if the Insurer has not made any payment under the Insurance Policy, it shall have no further consent rights until the particular Insurer Default is no longer continuing or the Insurer makes a payment under the Certificate Insurance Policy, in which event, the foregoing clause (1) shall control. For purposes of this provision, the term "Insurer Default" means:

(i) the Insurer has failed to make any payment under the Insurance Policy when due and owing in accordance with its terms; or

(ii) the Insurer shall (A) voluntarily commence any proceeding or file any petition seeking relief under the United States Bankruptcy Code or any other Federal, state or foreign bankruptcy, insolvency or similar law, (B) consent to the institution of or fail to controvert in a timely and appropriate manner, any such proceeding or the filing of any such petition, (C) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator or similar official for such party or for a

substantial part of its property, (D) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (E) make a general assignment for the benefit of creditors, or (F) take action for the purpose of effecting any of the foregoing; or

(iii) any state or federal agency or instrumentality shall order the suspension of payments on the Insurance Policy or shall obtain an order or grant approval for the rehabilitation, liquidation, conservation or dissolution of the Insurer (including without limitation under the New York Insurance Law).

(f) Prohibition on Contracts. No contract shall be entered into or any action taken by which the rights of the Insurer or security for or source of payment of the Certificates may be impaired or prejudiced in any material respect except upon obtaining the prior written consent of the Insurer.

(g) Notice to Insurer Counsel. The District will provide the Insurer with all notices and other information it is obligated to provide to the holders of Certificates or the Trustee under this Indenture. The District will also provide to the Insurer all notices filed under the Continuing Disclosure Agreement relating to the Certificates, but only if the Insurer is not able to receive automatic notifications of such filings from the system which is maintained by the Municipal Securities Rulemaking Board with respect to such filings. The notice address of the Insurer is:

Build America Mutual Assurance Company  
200 Liberty Street, 27th Floor  
New York, New York 10281  
Attention: Surveillance, Re: Policy No. \_\_\_\_\_  
Telephone: (212) 235-2500  
Telecopier: (212) 235-1542  
Email: [notices@buildamerica.com](mailto:notices@buildamerica.com)

In each case in which notice or other communication refers to an Event of Default or a claim on the Policy, then a copy of such notice or other communication shall also be sent to the attention of the General Counsel at the same address and at [claims@buildamerica.com](mailto:claims@buildamerica.com) or at Telecopier: (212) 235-5214 and shall be marked to indicate “URGENT MATERIAL ENCLOSED.”

#### **Section 7.08. Certificate Reserve Policy Provisions.**

(a) The District shall repay any draws under the Certificate Reserve Policy and pay all related reasonable expenses incurred by the Insurer. Interest shall accrue and be payable on such draws and expenses from the date of payment by the Insurer at the Late Payment Rate.

Repayment of draws and payment of expenses and accrued interest thereon at the Late Payment Rate (collectively, the “Policy Costs”) shall commence in the first month following each draw, and each such monthly payment shall be in an amount at least equal to 1/12 of the aggregate of Policy Costs related to such draw.

Amounts in respect of Policy Costs paid to the Insurer shall be credited first to interest due, then to the expenses due and then to principal due. As and to the extent that payments are made to the Insurer on account of principal due, the coverage under the Certificate Reserve Policy will be increased by a like amount, subject to the terms of the Certificate Reserve Policy.

All cash and investments in the Reserve Fund established for the Certificates and all other available amounts in any funds available to pay debt service on the Certificates shall be transferred to the Installment Payment Fund for payment of the debt service on the Certificates before any drawing may be made on the Certificate Reserve Policy or any other Qualified Reserve Fund Credit Instrument on deposit in the Reserve Fund in lieu of cash.

(b) Payment of any Policy Cost shall be made prior to replenishment of any cash amounts. Draws on all reserve fund credit instruments (including the Certificate Reserve Policy) on which there is available coverage shall be made on a pro-rata basis (calculated by reference to the coverage then available thereunder) after applying all available cash and investments in the Reserve Fund. Payment of Policy Costs and reimbursement of amounts with respect to other reserve fund credit instruments shall be made on a pro-rata basis prior to replenishment of any cash drawn from the Reserve Fund. For the avoidance of doubt, “available coverage” means the coverage then available for disbursement pursuant to the terms of the applicable alternative credit instrument without regard to the legal or financial ability or willingness of the provider of such instrument to honor a claim or draw thereon or the failure of such provider to honor any such claim or draw. The Policy Limit shall automatically and irrevocably be reduced from time to time by the amount of each reduction in the Reserve Requirement.

(c) Draws under the Certificate Reserve Policy may only be used to make payments on the Certificates insured by the Insurer.

(d) If the District shall fail to pay any Policy Costs in accordance with the requirements of paragraph (a) above, the Insurer shall be entitled to exercise any and all legal and equitable remedies available to it, including those provided under this Trust Agreement other than (i) acceleration of the maturity of the Certificates, or (ii) remedies which would adversely affect owners of the Certificates.

(e) This Trust Agreement shall not be discharged until all Policy Costs owing to the Insurer shall have been paid in full. The District’s obligation to pay such amount shall expressly survive payment in full of the Certificates.

(f) The Trustee shall ascertain the necessity for a claim upon the Certificate Reserve Policy in accordance with the provisions of paragraph (a) above and provide notice to the Insurer at least three Business Days prior to each date upon which interest or principal is due on the Certificates.

(g) The Certificate Reserve Policy shall expire on the earlier of the date the Certificates are no longer outstanding and the final maturity date of the Certificates.

## **ARTICLE VIII AMENDMENT OF OR SUPPLEMENT TO TRUST AGREEMENT**

### **Section 8.01. Amendment or Supplement by Consent of Owners.**

The Trust Agreement may be amended in writing by agreement among all of the parties, but no such amendment (except as provided below) shall become effective unless and until approved (i) with the written consent of the Insurer or (with the prior written consent of the Insurer) by the Owners of a majority in aggregate principal amount of Certificates Outstanding; provided that no such amendment shall impair the right of any Owner to receive his proportionate share of any Installment Payments in accordance with his Certificate of Participation unless consented to by the applicable Certificate Owner.

Notwithstanding the foregoing, the Trust Agreement and the rights and obligations provided thereby may also be modified or amended at any time (a) without the consent of any Owners of the Certificates and (b) with the consent of the Insurer, so long as the Insurance Policy is in full force and effect and the Insurer has not failed to comply with its payment obligations under the Insurance Policy and which consent shall not unreasonably or untimely be withheld, but only (1) to cure any ambiguity or formal defect or omissions or to correct any inconsistent provisions in this Trust Agreement or in any supplement hereto, or (2) to grant or confer upon the Owners any additional rights, remedies, powers authority or security that may lawfully be granted to or conferred upon the Owners, or (3) to add to the conditions, limitations and restrictions on the issuance of Certificates under the provisions of this Trust Agreement or the transaction documents pursuant to which the Certificates have been issued other conditions, limitations and restrictions thereafter to be observed, or (4) to add to the covenants and agreements of the District in this Trust Agreement other covenants and agreements thereafter to be observed by the District or to surrender any right or power therein reserved to or conferred upon the District, or (4) to issue Parity Obligations in accordance with the requirements set forth in the Installment Purchase Contract; provided that the Corporation, the District and the Trustee may rely in entering into any such amendment of the Trust Agreement upon the opinion of nationally recognized bond counsel stating that the requirements of this sentence shall have been met with respect to such amendment. The Trustee may in its discretion, but shall not be obligated to, enter into any amendment or modification which adversely affects the Trustee's own rights, duties or immunities under this Trust Agreement or otherwise.

In the event of any such amendment or supplement, copies of such amendment or supplement and any other documents relating thereto shall be provided by the District to the Insurer and Moody's (to the extent Moody's maintains a rating on the Certificates), S&P (to the extent S&P maintains a rating on the Certificates) at least fifteen (15) days prior to the effective date thereof.

### **Section 8.02. Disqualified Certificates.**

Certificates owned or held by or for the account of the District shall not be deemed outstanding for the purpose of any consent or other action or any calculation of Outstanding Certificates provided in this Article VIII, and shall not be entitled to consent to or take any other action provided in this Article VIII, and the Trustee may adopt appropriate regulations to require

each Owner, before his consent provided for herein shall be deemed effective, to reveal if the Certificates as to which such consent is given are disqualified as provided in this Section 8.02. Upon request of the Trustee, the District shall specify in a certificate to the Trustee those Certificates disqualified pursuant to this Section and the Trustee may conclusively rely on such certificate.

## **ARTICLE IX DEFEASANCE**

### **Section 9.01. Defeasance.**

Any Outstanding Certificates shall be paid and discharged in any one or more of the following ways:

(a) by paying or causing to be paid the principal and interest with respect to the Certificates Outstanding to be defeased, as and when the same become due and payable;

(b) by depositing with the Trustee, in trust, before maturity, money which, together with the amounts which are then on deposit in the Installment Payment Fund and the Reserve Fund, is fully sufficient to pay such Certificates Outstanding, including all principal and interest relating thereto;

(c) by depositing with the Trustee, in trust under an escrow deposit and trust agreement, non-callable Federal Securities (the “Defeasance Obligations”) in such amount as a nationally recognized certified public accountant shall determine will, together with the interest to accrue thereon and moneys then on deposit in the Installment Payment Fund and Reserve Fund to be applied to such defeasance together with the interest to accrue thereon, be fully sufficient to pay and discharge such Certificates (including all principal and interest) at or before their respective maturity dates;

(d) by depositing with the Trustee, under an escrow deposit and trust agreement, cash, or Defeasance Obligations for the payment of a portion of Installment Payments as more particularly described in Section 6.03 of the Installment Purchase Contract, said Defeasance Obligations to be held by the Trustee, as agent for District and to be applied by the Trustee to pay Installment Payments representing the obligation of the District under the Installment Purchase Contract, as described in Section 6.03 of the Installment Purchase Contract.

In the event of an advance refunding as described in paragraphs (c) and (d) above (i) the District shall cause to be delivered, on the deposit date and upon any reinvestment of the defeasance amount, a report of an independent firm of nationally recognized certified public accountants (“Accountant”) verifying the sufficiency of the escrow established to pay such Certificates in full on the maturity or prepayment date (“Verification”), (ii) the escrow agreement shall provide that no (A) substitution of a Defeasance Obligation shall be permitted except, with the prior written consent of the Insurer, with another Defeasance Obligation and upon delivery of a new Verification and (B) reinvestment of a Defeasance Obligation shall not be permitted except as contemplated by the original Verification or upon delivery of a new Verification, and (iii) there shall be delivered an opinion of nationally recognized bond counsel to the effect that such Certificates are no longer “Outstanding” under the Trust Agreement. Each Verification and

defeasance opinion shall be acceptable in form and substance, and addressed, to the District, the Trustee and the Insurer. Certificates shall be deemed “Outstanding” under the Trust Agreement unless and until they are in fact paid and retired or the above criteria are met. The District shall not amend the escrow agreement or enter into a forward purchase agreement or other agreement with respect to rights in the escrow without the prior written consent of the Insurer.

Notwithstanding that some Certificates may not have been surrendered for payment, all obligations of the Corporation, the Trustee and the District under the Trust Agreement with respect to all defeased Certificates shall cease and terminate, except only the obligation of the Trustee to pay or cause to be paid to the Owners of the Certificates all sums due thereon and the obligation of the District to indemnify and pay the Trustee in accordance with Sections 7.02 and 7.03 hereof.

Upon the defeasance of all Outstanding Certificates, any funds held by the Trustee, at the time of one of the events described above in subsections (a), (b), (c) or (d), which are not required for the payment to be made to Owners, or for payments to be made to the Trustee by the District, shall be paid over to the District upon delivery of a certificate of a certified public accountant that such funds are not required to be paid to the Owners.

Notwithstanding anything in this Section 9.01 to the contrary, if the principal, interest and premium (if any) with respect to the Certificates are paid by the Insurer under the Insurance Policy, the obligations of the Trustee and the District will continue in full force and effect and the Insurer shall be fully subrogated to the rights of all Owners of the Certificates so paid. In addition, the obligations of the Trustee and the District hereunder shall continue in full force and effect, and will not be terminated, until such time as the District has paid all amounts (if any) as shall be due and owing to the Insurer under the Insurance Policy; and the Trustee may not distribute any funds to the District under this Section 9.01 unless the District has certified to the Trustee that there are no obligations then due and owing by the District to the Insurer under the Insurance Policy.

#### **Section 9.02. Unclaimed Moneys.**

Anything contained herein to the contrary notwithstanding, any money held by the Trustee in trust for the payment and discharge of the interest or principal evidenced and represented by any of the Certificates which remains unclaimed for two (2) years after the date when the payments evidenced and represented by such Certificates have become payable, if such money was held by the Trustee at such date, or for two (2) years after the date of deposit of such money if deposited with the Trustee after the date when the interest and principal evidenced and represented by such Certificates have become payable, the Trustee shall pay such amounts to the District as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners shall look only to the District for interest and principal represented by such Certificates; provided, however, that before being required to make any such payment to the District, the Trustee shall, at the expense and written request of the District, cause to be published once a week for two (2) successive weeks in a financial newspaper a notice that such money remains unclaimed and that after a date named in such notice, which date shall not be less than thirty (30) days after the date of the first publication of such notice, the balance of such money then unclaimed will be returned to the District.



## **ARTICLE X MISCELLANEOUS**

### **Section 10.01. Benefits of Trust Agreement Limited to Parties.**

Nothing contained herein, expressed or implied, is intended to give to any person other than the Corporation, the District, the Trustee and the Owners any claim, remedy or right under or pursuant hereto, and any agreement, condition, covenant or term contained herein required to be observed or performed by or on behalf of the Corporation or the District shall be for the sole and exclusive benefit of the Trustee and the Owners.

### **Section 10.02. Successor Deemed Included in all References to Predecessor.**

Whenever either the Corporation, the District, the Trustee or any officer thereof is named or referred to herein, such reference shall be deemed to include the successor to the powers, duties and functions that are presently vested in the Corporation, the District, the Trustee or such officer, and all agreements, conditions, covenants and terms required hereby to be observed or performed by or on behalf of the Corporation, the District, the Trustee or any officer thereof shall bind and inure to the benefit of the respective successors thereof whether so expressed or not.

### **Section 10.03. Execution of Documents by Owners.**

Any declaration, consent, request or other instrument which is permitted or required herein to be executed by Owners may be in one or more instruments of similar tenor and may be executed by Owners in person or by their attorneys appointed in writing. The fact and date of the execution by any Owner or his or her attorney of any declaration, consent, request or other instrument or of any writing appointing such attorney may be proved by the certificate of any notary public or other officer authorized to take acknowledgments of deeds to be recorded in the state or territory in which he purports to act, that the person signing such declaration, consent, request or other instrument or writing acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer, or by such other proof as the Trustee or the paying agent, as the case may be, may accept which it may deem sufficient. Any declaration, consent, request or other instrument in writing of the Owner of any Certificate shall bind all future owners of such Certificate with respect to anything done or suffered to be done by the Corporation, the District or the Trustee in good faith and in accordance therewith.

### **Section 10.04. Waiver of Personal Liability.**

No board member, officer or employee of the Corporation or the District shall be individually or personally liable for the payment of the interest or principal evidenced and represented by the Certificates, but nothing contained herein shall relieve any board member, officer or employee of the District or the Corporation from the performance of any official duty provided by any applicable provisions of law or by the Installment Purchase Contract or hereby.

### **Section 10.05. Acquisition of Certificates by District.**

All Certificates acquired by the District, whether by purchase or gift or otherwise, shall be surrendered to the Trustee for cancellation.

### **Section 10.06. Content of Certificates.**

Every Certificate of the District with respect to compliance with any agreement, condition, covenant or term contained herein (other than a Certificate of the District filed with the Trustee in connection with a disbursement from the Delivery Costs Fund and the Acquisition Fund, the contents of which certificate shall be as set forth in Section 3.03 and Section 3.11, respectively, hereof) shall include (a) a statement that the person or persons making or giving such certificate have read such agreement, condition, covenant or term and the definitions herein relating thereto; (b) a statement that, in the opinion of the signers they have made or caused to be made such examination or investigation as is necessary to enable them to express an informed opinion as to whether or not such agreement, condition, covenant or term has been complied with; and (c) a statement as to whether, in the opinion of the signers, such agreement, condition, covenant or term has been complied with. Any Certificate of the District may be based, insofar as it relates to legal matters, upon an opinion of counsel unless the person making or giving such certificate knows that the opinion of counsel with respect to the matters upon which such certificate may be based, as aforesaid, is erroneous, or in the exercise of reasonable care should have known that the same was erroneous. Any opinion of counsel may be based, insofar as it relates to factual matters or information with respect to which is in the possession of the District, upon a representation by an officer or officers of the District unless the counsel executing such opinion of counsel knows that the representation with respect to the matters or upon which his opinion may be based, as aforesaid, is erroneous, or in the exercise of reasonable care should have known that the same was erroneous.

### **Section 10.07. Notice by Mail.**

Any notice required to be given hereunder by mail to any Owners of Certificates shall be given by mailing a copy of such notice, first class postage prepaid, to the Owners of such Certificates at their addresses appearing in the books required to be kept by the Trustee pursuant to the provisions of Section 2.07 not less than thirty (30) days nor more than sixty (60) days following the action or prior to the event concerning which notice thereof is required to be given unless this Trust Agreement expressly provides a different provision; provided, that receipt of any such notice shall not be a condition precedent to the effect of such notice and failure to receive any such notice shall not affect the validity of the proceedings taken in connection with the action or the event concerning which such notice was given.

### **Section 10.08. Funds.**

Any fund or account required to be established and maintained herein by the Trustee may be established and maintained in the accounting records of the Trustee either as an account or a fund, and may, for the purposes of such accounting records, any audits thereof and any reports or statements with respect thereto, be treated either as an account or a fund; but all such records with respect to all such funds shall at all times be maintained in accordance with

sound accounting practice and with due regard for the protection of the security of the Certificates and the rights of the owners.

**Section 10.09. Investments.**

(a) Amounts on deposit in any fund or account created pursuant to the Installment Purchase Contract or this Trust Agreement (except the Reserve Fund) shall be invested in Permitted Investments which will, as nearly as practicable, mature on or before the dates when such money is anticipated to be needed for disbursement hereunder, in accordance with such written directions as the District may from time to time provide to the Trustee. Amounts on deposit in the Reserve Fund shall be invested by the Trustee, in accordance with written directions from the District, in Permitted Investments (i) having an average aggregate weighted term to maturity not greater than five (5) years, or (ii) of any maturity, but callable at par for any purpose required by this Trust Agreement. Investment directions shall be received at least two (2) Business Days prior to the date of making the investment. If no such direction has been received by the Trustee in sufficient time, the Trustee shall invest such amounts in Permitted Investments of the type described in paragraph (4) of the definition thereof; provided that the Trustee shall have received a written instruction of the District specifying a specific money market fund and, if no such Written Request of the District is so received, the Trustee shall hold such moneys uninvested. The Trustee may act as principal or agent in the acquisition or disposition of any such investment. The Trustee shall not be liable or responsible for any loss suffered in connection with any such investment made by it under the terms of and in accordance with this Section 10.09. The Trustee may sell or present for prepayment any obligations so purchased whenever it shall be necessary in order to provide moneys to meet any payment of the funds so invested, and the Trustee shall not be liable or responsible for any losses resulting from any such investment sold or presented for prepayment. Interest or profit received from the investment of amounts on deposit in the Delivery Costs Fund shall be retained therein and used as described in Section 3.03. Interest or profit received from the investment of amounts on deposit in the Acquisition Fund shall be retained therein and used as described in Section 3.10. Interest or profit received on investments not described in the previous two sentences shall be deposited to the Acquisition Fund until the Project is Acquired, and thereafter to the Installment Payment Fund.

The Trustee may exclusively rely that any investment directed by the District hereunder is a Permitted Investment as required by this Trust Agreement. The Trustee may act as depository, manager, advisor or sponsor with regard to any Permitted Investment.

(b) In computing the amount in any fund or account, Permitted Investments shall be valued at fair market value, marked to market, exclusive of accrued interest. The Trustee shall perform such valuation (i) no less often than once a year or more frequently than monthly, and (ii) upon any draw on the Reserve Fund. In making any valuations hereunder, the Trustee may utilize any securities pricing services that may be available to it, including those within its regular accounting system, and conclusively rely thereon. If amounts on deposit in the Reserve Fund shall, at the time of valuation, be less than the applicable Reserve Requirement the Trustee shall notify the District within five (5) Business Days and such deficiency shall be immediately made up by the District from Net Revenues and such Reserve Fund shall be valued monthly until amounts on deposit therein equal the Reserve Requirement.

(c) If at any time after investment therein a Permitted Investment ceases to meet the criteria set forth in the definition of Permitted Investments and such obligation, aggregated with other non-conforming investments, exceeds ten percent (10%) of invested funds, such Permitted Investment shall be sold or liquidated. The Trustee shall terminate any repurchase agreement upon a failure of the counterparty thereto to maintain the requisite collateral percentage after the restoration period and, if not paid by the counterparty in federal funds against transfer of the repurchase securities, liquidate the collateral. The Trustee shall, upon actual knowledge of a default under a repurchase or investment agreement or the withdrawal or suspension of either of the ratings of a repurchase or investment agreement provider or a drop in the ratings thereon below “AA” or “Aa”, as appropriate, or “AAA” or “Aaa”, as appropriate, in the case of a foreign bank, shall demand further collateralization of the agreement or termination thereof and liquidation of the collateral. In the event any funds or accounts are invested in an investment agreement described in clause (10) of the definition of Permitted Investments, the Trustee shall give notice to the provider of such investment agreement in accordance with the terms of such investment agreement to receive funds thereunder with no penalty or premium.

(d) The District acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grants to the District the right to receive brokerage confirmations of security transactions as they occur, the District specifically waives receipt of such confirmations to the extent permitted by law. The Trustee will furnish the District periodic cash transaction statements which include detail for all investment transactions made by the Trustee hereunder.

#### **Section 10.10. Article and Section Headings, Gender and References.**

The headings or titles of the several articles and sections hereof and the table of contents appended hereto shall be solely for convenience of reference and shall not affect the meaning, construction or effect hereof, and words of any gender shall be deemed and construed to include all genders. All references herein to “Articles,” “Sections” and other subdivisions or clauses are to the corresponding articles, sections, subdivisions or clauses hereof; and the words “hereby,” “herein,” “hereof,” “hereto,” “herewith,” “hereunder” and other words of similar import refer to this Trust Agreement as a whole and not to any particular article, section, subdivision or clause hereof.

#### **Section 10.11. Partial Invalidity.**

If any one or more of the agreements, conditions, covenants or terms contained herein required to be observed or performed by or on the part of the Corporation, the District or the Trustee shall be contrary to law, then such agreement or agreements, such condition or conditions such covenant or covenants or such term or terms shall be null and void and shall be deemed separable from the remaining agreements, conditions, covenants and terms hereof and shall in no way affect the validity hereof or of the Certificates, and the Owners shall retain all the benefit, protection and security afforded to them under any applicable provisions of law.

**Section 10.12. Third Party Beneficiary.**

The Insurer is hereby made a third party beneficiary hereunder with all rights of a third party beneficiary. As a third party beneficiary, the Insurer shall be entitled to enforce any right, remedy or claim conferred, given or granted hereunder for its benefit.

**Section 10.13. California Law.**

This Trust Agreement shall be construed and governed in accordance with the laws of the State of California.

**Section 10.14. Notices.**

All written notices to be given hereunder shall be given by certified mail to the party entitled thereto at its address set forth in the Installment Purchase Contract, or at such other address as such party may provide to the other parties in writing from time to time.

**Section 10.15. Effective Date.**

This Trust Agreement shall become effective upon its execution and delivery.

**Section 10.16. Execution in Counterparts.**

This Trust Agreement may be executed in several counterparts, each of which shall be deemed an original, and all of which shall constitute but one and the same instrument.

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

**ZIONS BANCORPORATION, NATIONAL ASSOCIATION, as Trustee**

By: \_\_\_\_\_  
Authorized Signatory

**MUNICIPAL FINANCE CORPORATION**

By: \_\_\_\_\_  
Administrator

**SAN LORENZO VALLEY WATER DISTRICT**

By: \_\_\_\_\_  
District Manager

**APPENDIX A**

**FORM OF CERTIFICATE OF PARTICIPATION**

NO. \_\_\_\_\_ \$ \_\_\_\_\_

**SAN LORENZO VALLEY WATER DISTRICT  
REVENUE CERTIFICATE OF PARTICIPATION  
SERIES 2019**

Evidencing the Direct, Undivided Fractional Interest  
of the Owner hereof in Installment Payments  
to be Made to the \_\_\_\_\_ by the

**SAN LORENZO VALLEY WATER DISTRICT**

Rate of Interest                      Maturity Date                      Dated Date                      CUSIP

REGISTERED OWNER: CEDE & CO.  
PRINCIPAL AMOUNT

DOLLARS

THIS IS TO CERTIFY that the Owner specified above of this Certificate of Participation (the "Certificate"), is the Owner of an undivided interest in the rights to receive certain installment payments (the "Installment Payments") and the interest thereon under and pursuant to that certain Installment Purchase Contract, dated as of July 1, 2019, (the "Installment Purchase Contract"), between the San Lorenzo Valley Water District, duly organized and validly existing under the laws of the State of California (the "District") and the Municipal Finance Corporation, a non-profit corporation duly organized and validly existing under the laws of the State of California (the "Corporation"), all of which rights to receive such Installment Payments and the interest thereon, together with certain other rights, have been assigned by the Corporation to Zions Bancorporation, National Association, as trustee (the "Trustee"), a national banking association duly organized and validly existing under the laws of the United States of America and having a principal corporate trust office in Los Angeles, California, or in such other place as designated by the Trustee or any other bank or trust company which may at any time be substituted in its place as provided in the Trust Agreement hereinafter mentioned.

This Certificate is one of the duly authorized certificates of participation designated "San Lorenzo Valley Water District Revenue Certificates of Participation, Series 2019" aggregating \$\_\_\_\_\_ in principal amount which have been executed by the Trustee under and pursuant to the terms of a Trust Agreement, dated as of July 1, 2019 (the "Trust Agreement"), by and among the Trustee, the Corporation and the District, and all capitalized terms used herein not otherwise defined shall have the definitions for such terms contained in the Trust Agreement or the Installment Purchase Contract.

The Owner of this Certificate is entitled to receive, subject to the terms of the Installment Purchase Contract and any right of prepayment prior thereto hereinafter provided for, on the date set forth on the front hereof (the "Maturity Date"), upon surrender of this Certificate on the Maturity Date or on the date of prepayment prior thereto at the principal corporate trust

office of the Trustee in Los Angeles, California, or such other place as designated by the Trustee, the Principal Amount specified above representing the Owner's share of the Installment Payments becoming due and payable on the Maturity Date, and to receive on March 1 and September 1 of each year, commencing March 1, 2020 (each, an "Interest Payment Date") to and including the Maturity Date or the date of prepayment prior thereto, whichever is earlier, by check mailed via first class mail on the Interest Payment Date to the owner at the address shown on the registration books for the Certificates on the fifteenth day of the calendar month prior to an Interest Payment Date, or, upon the written request from any Owner of any Certificate in a denomination of, or Certificates aggregating, at least \$1,000,000, received on or prior to the fifteenth day of the month preceding the applicable Interest Payment Date, by wire in Federal Reserve funds, the Owner's share of the interest on the Installment Payments at the rate set forth on the front hereof. All such amounts are payable in lawful money of the United States of America.

Interest on the principal components shall be at a rate equal to the rate set forth on the front hereof, which shall be calculated based on a 360-day year of twelve 30-day months.

Copies of the Trust Agreement are on file at the principal corporate trust office of the Trustee in Los Angeles, California and reference is hereby made to the Trust Agreement and to any and all amendments thereof and supplements thereto for a description of the agreements, conditions, covenants and terms securing the Certificates, for the nature, extent and manner of enforcement of such agreements, conditions, covenants and terms, for the rights and remedies of the Owners of the Certificates with respect thereto and for the other agreements, conditions, covenants and terms upon which the Certificates are executed and delivered thereunder.

The Installment Payments relating to the Certificates are a special obligation of the District, payable solely from (i) Net Revenues (as defined in the Installment Purchase Contract), and (ii) moneys on deposit in the funds and accounts established under the Trust Agreement and the Installment Purchase Contract. The Installment Payments do not constitute a debt of the District or of the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction.

To the extent and in the manner permitted by the terms of the Trust Agreement, the provisions of the Trust Agreement may be amended or supplemented in writing by the parties thereto (in certain instances without the consent of the Owners of Certificates), but no such amendment or supplement shall (i) reduce the rate of interest evidenced hereby or extend the time of payment of such interest or reduce the amount of principal evidenced hereby or extend the Maturity Date hereof without the prior written consent of the Owner hereof, or (ii) reduce the percentage of Owners of Certificates whose consent is required for the execution of any amendment of or supplement to the Trust Agreement, or (iii) modify any rights or obligations of the Trustee without its prior written consent thereto.

The Certificates are authorized to be executed and delivered in the form of fully registered Certificates in denominations of five thousand dollars (\$5,000) or any integral multiple thereof.

This Certificate is transferable or exchangeable by the Owner hereof in person or by the Owner's attorney duly authorized in writing, at the principal corporate trust office of the



Trustee in Los Angeles, California, or such other place as designated by the Trustee, but only in the manner, subject to the limitations and upon payment of the charges provided in the Trust Agreement, and upon surrender of this Certificate for cancellation accompanied by delivery of a duly executed written instrument of transfer or exchange in a form approved by the Trustee. Upon such transfer or exchange, a new Certificate or certificates of authorized denominations of the same Maturity Date and interest rate representing the same aggregate principal amount hereof will be executed and delivered by the Trustee to the owner thereof in exchange therefor. The Trustee shall require the payment by the Owner requesting such transfer or exchange of any tax or other governmental charge required to be paid with respect to such transfer or exchange. The Trustee may treat the Owner hereof as the absolute owner hereof for all purposes, whether or not this Certificate shall be overdue, and the Trustee shall not be affected by any knowledge or notice to the contrary; and payment of the interest and principal and prepayment premium, if any, evidenced by this Certificate shall be made only to such Owner, which payments shall be valid and effectual to satisfy and discharge liability evidenced by this Certificate to the extent of the sum or sums so paid.

The Trustee shall not be obligated to make any such registration of transfer or exchange of Certificates during the fifteen (15) day period prior to the date on which notice of prepayment must be mailed pursuant to the Trust Agreement, or with respect to any Certificate which has been selected for prepayment pursuant to the Trust Agreement.

The Certificates shall be subject to prepayment as set forth in the Trust Agreement.

As provided in the Trust Agreement, notice of prepayment hereof shall be mailed, first class postage prepaid, not less than thirty (30) nor more than forty-five (45) days prior to the prepayment date, to the Owner of this Certificate at such Owner's address as it appears in the registration books maintained by the Trustee, but failure to give any such notice or any defect therein shall not affect the validity of the proceedings for the prepayment of this Certificate. If this Certificate is called for prepayment and payment is duly provided therefor as specified in the Trust Agreement, the interest evidenced hereby shall cease to accrue from and after the date fixed for prepayment.

The Trustee has no obligation or liability to the Owners of the Certificates for the payment of the interest or principal or prepayment premiums, if any, evidenced by the Certificates; but rather the Trustee's sole obligations are to administer, for the benefit of the District and the Corporation and the Owners of the Certificates, the various funds established under the Trust Agreement and Installment Purchase Contract. The Trustee has executed this Certificate solely in its capacity as Trustee under the Trust Agreement and not in its individual or personal capacity. The Trustee is not liable for the obligations evidenced by the Certificates except from amounts held by it in its capacity as Trustee under the Trust Agreement. The Corporation has no obligation or liability whatsoever to the Owners of the Certificates.

Unless this Certificate is presented by an authorized representative of The Depository Trust Company, a New York corporation (“DTC”), to the District or its agent for registration of transfer, exchange, or payment, and any certificate issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof Cede & Co., has an interest herein.

IN WITNESS WHEREOF, this Certificate has been executed by the manual signature of an authorized officer of the Trustee.

Dated:

**ZIONS BANCORPORATION, NATIONAL  
ASSOCIATION,**  
as Trustee

By: \_\_\_\_\_  
Authorized Signatory

## STATEMENT OF INSURANCE

Build America Mutual Assurance Company (“BAM”), New York, New York, has delivered its municipal bond insurance policy (the “Policy”) with respect to the scheduled payments due of principal of and interest with respect to this Certificate to Wells Fargo Bank, National Association, Los Angeles, California, or its successor, as trustee for the Certificates (the “Trustee”). Said Policy is on file and available for inspection at the Principal Office of the Trustee and a copy thereof may be obtained from BAM or the Trustee. All payments required to be made under the Policy shall be made in accordance with the provisions thereof. By its purchase of these Certificates, the owner acknowledges and consents to the subrogation and all other rights of BAM as more fully set forth in the Policy.

## ASSIGNMENT

For value received, the undersigned does hereby sell, assign and transfer unto \_\_\_\_\_ the within Certificates and does hereby irrevocably constitute and appoint \_\_\_\_\_ attorney to transfer such Certificate on the register of the Trustee, with full power of substitution in the premises.

Dated: \_\_\_\_\_

Signature: \_\_\_\_\_

Note: The signature(s) to this Assignment must correspond with the name(s) as written on the face of the within Certificate in every particular, without alteration or enlargement or any change whatsoever.

Signature Guaranteed by: \_\_\_\_\_

Signature guarantee shall be made by a guarantor institution participating in the Securities Transfer Agents Medallion Program or in such other guarantee program acceptable to the Trustee.

## APPENDIX B

### FORM OF CERTIFICATE OF THE DISTRICT

Zions Bancorporation, National Association  
Los Angeles, California  
Attention: Corporate Trust Services

RE: Disbursement from the Acquisition Fund pursuant to Section 3.10 of the Trust Agreement, dated as of July 1, 2019 (the "Agreement"), among Zions Bancorporation, National Association, as Trustee (the "Trustee"), the Municipal Finance Corporation (the "Corporation") and the SAN LORENZO VALLEY WATER DISTRICT (the "District")

NOTICE NO. \_\_\_\_\_

You are hereby instructed to pay to the parties listed on Exhibit A hereto the sum listed opposite such parties names as a payment of the cost of the Acquisition of the Project for the items listed on the Schedule attached hereto and the expenses incidental thereto (including reimbursement to the District for certain of such costs or expenses) from the Acquisition Fund as provided in Section 3.10 of the Trust Agreement. This cost has been properly incurred, is a proper charge under the Agreement against payment of the costs of the Acquisition of the Project and has not been the basis of any previous disbursements. The amount remaining in the Acquisition Fund, together with interest earnings thereon will, after payment of the amount set forth in this requisition, be sufficient to pay all remaining costs of the Acquisition of the Project as presently estimated.

I hereby certify that:

(i) the District is authorized to act as agent for the Corporation with respect to this Certificate and the undersigned is duly authorized by the District to deliver this Certificate;

(ii) an obligation in the stated amount has been properly incurred under and pursuant to the Installment Purchase Contract and each such obligation is a proper charge against the Acquisition Fund and has not been subject of any previous Certificate of the District;

(iii) there has not been filed with or served upon the Corporation or the District a stop notice or any other notice of any lien, right to lien or attachment upon, or claim affecting the right to receive payment of, any of the money payable to the person named in this Certificate which has not been released or will not be released with the payment of such obligation, other than materialmen's or mechanics' liens accruing by mere operation of laws;

(iv) in the case of each payment made under any contract for installation or construction, insofar as such obligation was incurred for work, materials, equipment or supplies, such work was actually performed on behalf of the District or such materials, equipment or

supplies were actually installed in furtherance of the Project or delivered at the site for that purpose or delivered for storage or fabrication at a place or places approved by the District;

(v) in the case of increased costs of the Acquisition of the Project, the amount of such increase has been or is herewith being deposited with the Trustee, or otherwise made available by the District; and

(vi) no event of default has occurred and is continuing.

Very truly yours,

---

District Representative

**EXHIBIT A**

Name and address  
of Payee

Purpose

Amount

**Attachment 5**

**PURCHASE CONTRACT**

\$ \_\_\_\_\_

**SAN LORENZO VALLEY WATER DISTRICT  
Revenue Certificates of Participation, Series 2019**

July \_\_, 2019

San Lorenzo Valley Water District  
13060 CA-9  
Boulder Creek, California 95006

Ladies and Gentlemen:

Municipal Capital Markets Group, Inc., acting on behalf of itself and not as an agent or representative of you (the “Underwriter”), hereby offers to enter into this Purchase Contract (the “Purchase Contract”) with the San Lorenzo Valley Water District (the “District”), a county water district duly organized and existing under the Constitution and laws of the State of California (the “State”). Upon the acceptance hereof by the District and acknowledgment by the Municipal Finance Corporation (the “Corporation”), a California nonprofit public benefit corporation, this Purchase Contract will be binding upon the District and the Underwriter. This offer is made subject to its acceptance by the District, by the execution of this Purchase Contract and its delivery to the Underwriter on or before 11:59 p.m., California time, on the date hereof. All terms used herein and not otherwise defined shall have the respective meanings given to such terms in the Trust Agreement or the Installment Purchase Contract (as both terms are hereinafter defined).

The District acknowledges and agrees that: (i) the purchase and sale of the Certificates (as defined below) pursuant to this Purchase Contract is an arm’s length commercial transaction between the District and the Underwriter in which the Underwriter is acting solely as a principal and not as an agent of the District and the Underwriter is not acting as a municipal advisor, financial advisor or fiduciary to the District; (ii) the Underwriter has not assumed any advisory or fiduciary responsibility to the District with respect to the transaction contemplated by the Purchase Contract and the discussions, undertakings or procedures leading thereto (irrespective of whether the Underwriter, or any affiliate of the Underwriter have provided other services or is currently providing other services to the District on other matters); (iii) the only obligations the Underwriter has to the District with respect to the transaction contemplated by this Purchase Contract are expressly set forth in this Purchase Contract; (iv) the District has consulted the District’s own financial and/or municipal legal, accounting, tax and other advisors, as applicable, to the extent the District has deemed appropriate; and (v) the Underwriter has financial and other interest that differ from those of the District. The District acknowledges that it has previously provided the Underwriter with an acknowledgement of receipt of the required Underwriter disclosure under Rule G-17 of the Municipal Securities Rulemaking Board (the “MSRB”).

1. Purchase and Sale. Upon the terms and conditions and upon the basis of the representations, warranties and agreements hereinafter set forth, the Underwriter hereby agrees to purchase, and the District hereby agrees to cause to be delivered to the Underwriter, all (but not less than all) of the \$ \_\_\_\_\_ aggregate principal amount of the San Lorenzo Valley Water District Revenue Certificates of Participation, Series 2019 (the “Certificates”) evidencing and representing the direct



and undivided interests of the registered owners thereof (the “Owners”) in the right to receive payments (the “Installment Payments”) to be made by the District pursuant to an Installment Purchase Contract, dated as of July 1, 2019 (the “Installment Purchase Contract”), by and between the District and the Corporation, at a purchase price of \$\_\_\_\_\_ (representing the par amount of the Certificates, plus a reoffering premium of \$\_\_\_\_\_ and less \$\_\_\_\_\_ of Underwriter’s discount). The Certificates will be dated the date of Closing (as hereafter defined).

The Certificates are being executed and delivered to provide funds to: (i) to finance the acquisition and construction of certain water storage and transmission facilities by the District; (ii) purchase a municipal bond debt service reserve insurance policy for the Certificates, and (iii) to pay certain costs of executing and delivering the Certificates.

The scheduled payment of principal of and interest on the Certificates when due will be guaranteed under the municipal bond insurance policy (the “Insurance Policy”) to be issued simultaneously with the delivery of the Certificates by Build America Mutual Assurance Company (the “Insurer”). The Insurer will also issue a municipal bond debt service reserve insurance policy for deposit in the Reserve Fund (the “Certificate Reserve Policy”) concurrently with the delivery of the Bonds.

2. Authorizing Instruments and Law. The Certificates shall be executed and delivered by Zions Bancorporation, National Association, as trustee (the “Trustee”), pursuant to a Trust Agreement, dated as of July 1, 2019 (the “Trust Agreement”), by and among the District, the Corporation and the Trustee. The Corporation will assign its right to receive Installment Payments to the Trustee pursuant to an Assignment Agreement, dated as of July 1, 2019 (the “Assignment Agreement”), by and between the Corporation and the Trustee. The Certificates shall mature on the dates and in the amounts and shall bear interest as set forth on Appendix A hereto and shall be as more particularly described in the Trust Agreement and the Limited Offering Memorandum dated July \_\_, 2019, relating to the Certificates (which, together with all exhibits and appendices included therein or attached thereto and such amendments or supplements thereto which shall be approved by the Underwriter, is hereinafter called the “Limited Offering Memorandum”).

3. Public Offering. The Underwriter agrees to make an initial public offering of all the Certificates at the prices or yields set forth on the inside front cover page of the Limited Offering Memorandum. Subsequent to the initial public offering, the Underwriter reserves the right to change the public offering prices (or yields) as it deems necessary in connection with the marketing of the Certificates, and to offer and sell the Certificates to certain dealers (including dealers depositing the Certificates into investment trusts) and others at prices lower (or at yields higher) than the initial offering prices (or yields) set forth in the Limited Offering Memorandum; provided, however, that the Underwriter shall not change the interest rates set forth in Appendix A hereto. The Underwriter also reserves the right: (a) to engage in transactions that stabilize, maintain or otherwise affect the market price of the Certificates at a level above that which might otherwise prevail in the open market; and (b) to discontinue such transactions, if commenced, at any time.

4. Establishment of Issue Price.

(a) The Underwriter agrees to assist the District in establishing the issue price of the Certificates and shall execute and deliver to the District at the date of the Closing (as hereinafter defined) an “issue price” or similar certificate, together with the supporting pricing wires or equivalent communications, substantially in the form attached hereto as Appendix B,

with such modifications as may be appropriate or necessary, in the reasonable judgment of the Underwriter, the District and Nossaman LLP (“Special Counsel”), to accurately reflect, as applicable, the sales price or prices or the initial offering price or prices to the public of the Certificates.

(b) Except as otherwise set forth in Appendix A attached hereto, the District will treat the first price at which 10% of each maturity of the Certificates (the “10% test”) is sold to the public as the issue price of that maturity. At or promptly after the execution of this Purchase Contract, the Underwriter shall report to the District the price or prices at which it has sold to the public each maturity of Certificates. If at that time the 10% test has not been satisfied as to any maturity of the Certificates, the Underwriter agrees to promptly report to the District the prices at which it sells the unsold Certificates of that maturity to the public. That reporting obligation shall continue, whether or not the date of the Closing has occurred, until either (i) the Underwriter has sold all Certificates of that maturity or (ii) the 10% test has been satisfied as to the Certificates of that maturity, provided that, the Underwriter’s reporting obligation after the date of the Closing may be at reasonable periodic intervals or otherwise upon request of the District or Special Counsel. For purposes of this Section, if Certificates mature on the same date but have different interest rates, each separate CUSIP number within that maturity will be treated as a separate maturity of the Certificates.

(c) The Underwriter confirms that it has offered the Certificates to the public on or before the date of this Purchase Contract at the offering price or prices (the “initial offering price”), or at the corresponding yield or yields, set forth in Appendix A attached hereto, except as otherwise set forth therein. Appendix A also sets forth, as of the date of this Purchase Contract, the maturities, if any, of the Certificates for which the Underwriter represents that (i) the 10% test has been satisfied (assuming orders are confirmed by the close of the business day immediately following the date of this Purchase Contract) and (ii) the 10% test has not been satisfied and for which the District and the Underwriter agree that the restrictions set forth in the next sentence shall apply, which will allow the District to treat the initial offering price to the public of each such maturity as of the sale date as the issue price of that maturity (the “hold-the-offering-price rule”). So long as the hold-the-offering-price rule remains applicable to any maturity of the Certificates, the Underwriter will neither offer nor sell unsold Certificates of that maturity to any person at a price that is higher than the initial offering price to the public during the period starting on the sale date and ending on the earlier of the following:

- (i) the close of the fifth (5th) business day after the sale date; or
- (ii) the date on which the Underwriter has sold at least 10% of that maturity of the Certificates to the public at a price that is no higher than the initial offering price to the public.

The Underwriter will advise the District promptly after the close of the fifth (5th) business day after the sale date whether it has sold 10% of that maturity of the Certificates to the public at a price that is no higher than the initial offering price to the public.

- (d) The Underwriter confirms that:
- (i) any selling group agreement and any third-party distribution agreement relating to the initial sale of the Certificates to the public, together with the related

pricing wires, contains or will contain language obligating each dealer who is a member of the selling group and each broker-dealer that is a party to such third-party distribution agreement, as applicable:

(A) (1) to report the prices at which it sells to the public the unsold Certificates of each maturity allocated to it, whether or not the date of the Closing has occurred, until either all Certificates of that maturity allocated to it have been sold or it is notified by the Underwriter that the 10% test has been satisfied as to the Certificates of that maturity, provided that, the reporting obligation after the date of the Closing may be reasonable periodic intervals or otherwise upon request of the Underwriter and (2) to comply with the hold-the-offering-price rule, if applicable, if and for so long as directed by the Underwriter,

(B) to promptly notify the Underwriter of any sales of Certificates that, to its knowledge, are made to a purchaser who is a related party to an underwriter participating in the initial sale of the Certificates to the public (each such term being used as defined below), and

(C) to acknowledge that, unless otherwise advised by the dealer or broker-dealer, the Underwriter shall assume that each order submitted by the dealer or broker-dealer is a sale to the public.

(ii) any selling group agreement relating to the initial sale of the Certificates to the public, together with the related pricing wires, contains or will contain language obligating each dealer that is a party to a third-party distribution agreement to be employed in connection with the initial sale of the Certificates to the public to require each broker-dealer that is a party to such third-party distribution agreement to (A) report the prices at which it sells to the public the unsold Certificates of each maturity allocated to it, whether or not the date of the Closing has occurred, until either all Certificates of that maturity allocated to it have been sold or it is notified by the Underwriter or the dealer that the 10% test has been satisfied as to the Certificates of that maturity, provided that, the reporting obligation after the date of the Closing may be at reasonable periodic intervals or otherwise upon request of the Underwriter or the dealer, and (B) comply with the hold-the-offering-price rule, if applicable, if and for so long as directed by the Underwriter or the dealer and as set forth in the related pricing wires.

(e) The District acknowledges that, in making the representation set forth in this section, the Underwriter will rely on (i) in the event a selling group has been created in connection with the initial sale of the Certificates to the public, the agreement of each dealer who is a member of the selling group to comply with the requirements for establishing issue price of the Certificates, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Certificates, as set forth in a selling group agreement and the related pricing wires, and (ii) in the event that a third-party distribution agreement was employed in connection with the initial sale of the Certificates to the public, the agreement of each broker-dealer that is a party to such agreement to comply with the requirements for establishing issue price of the Certificates, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Certificates, as set forth in the

third-party distribution agreement and the related pricing wires. The District further acknowledges that the Underwriter shall not be liable for the failure of any dealer who is a member of a selling group, or of any broker-dealer that is a party to a third-party distribution agreement, to comply with its corresponding agreement to comply with the requirements for establishing issue price of the Certificates, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Certificates.

(f) The Underwriter acknowledges that sales of any Certificates to any person that is a related party to an underwriter participating in the initial sale of the Certificates to the public (each such term being used as defined below) shall not constitute sales to the public for purposes of this section. Further, for purposes of this section:

(i) “public” means any person other than an underwriter or a related party;

(ii) “underwriter” means (A) any person that agrees pursuant to a written contract with the District (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Certificates to the public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Certificates to the public (including a member of a selling group or a party to a third-party distribution agreement participating in the initial sale of the Certificates to the public);

(g) a purchaser of any of the Certificates is a “related party” to an underwriter if the underwriter and the purchaser are subject, directly or indirectly, to (A) more than 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (B) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (C) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other); and

(h) “sale date” means the date of execution of this Purchase Contract by all parties.

#### 5. Delivery of Preliminary Limited Offering Memorandum and Limited Offering Memorandum.

(a) Pursuant to the authorization of the District, the Underwriter has distributed copies of the Preliminary Limited Offering Memorandum dated July \_\_, 2019, relating to the Certificates, which, together with the cover page and appendices thereto, is herein called the “Preliminary Limited Offering Memorandum.” By its acceptance of this proposal, the District hereby approves and ratifies the distribution and use by the Underwriter of the Preliminary Limited Offering Memorandum. The District agrees to execute and deliver a final Limited Offering Memorandum in substantially the same form as the Preliminary Limited Offering Memorandum with such changes as may be made thereto, with the consent of the District and the Underwriter, and to provide copies thereof to the Underwriter as set forth in Section 5(b) hereof. The District hereby authorizes the Underwriter to use and distribute, in connection with the offer and sale of the Certificates the Preliminary Limited Offering Memorandum, the

Limited Offering Memorandum, the Trust Agreement, the Installment Purchase Contract, the Assignment Agreement, the Continuing Disclosure Agreement (as hereinafter defined), and other documents or contracts to which the District or the Corporation is a party in connection with the transactions contemplated by this Purchase Contract, including this Purchase Contract and all information contained herein, and all other documents, certificates and statements furnished by the District or the Corporation to the Underwriter in connection with the transactions contemplated by this Purchase Contract.

(b) The District shall deliver a sufficient number of copies of the Limited Offering Memorandum to enable the Underwriter to distribute a single copy of each Limited Offering Memorandum to any potential customer of the Underwriter requesting a Limited Offering Memorandum during the time period beginning when the Limited Offering Memorandum becomes available and ending on the End Date (defined below). The District shall deliver these copies to the Underwriter no later than the earlier of (i) seven (7) business days after the execution of this Purchase Contract or (ii) one (1) business day prior to the date of the Closing in order to permit the Underwriter to comply with Rule 15c2-12 of the Securities and Exchange Commission, and the applicable rules of the MSRB, with respect to distribution of the Limited Offering Memorandum. The District shall prepare the Limited Offering Memorandum, including any amendments thereto, in word-searchable PDF format as described in the MSRB's Rule G-32 and shall provide the electronic copy of the word-searchable PDF format of the Limited Offering Memorandum to the Underwriter no later than one (1) business day prior to the date of the Closing to enable the Underwriter to comply with MSRB Rule G-32. The Underwriter shall inform the District in writing of the End Date, and covenants to file the Limited Offering Memorandum with the MSRB on a timely basis.

(c) The Limited Offering Memorandum, as of its date, as of the date of the Closing and as of the date of any update, amendment or supplement thereto as required hereby subsequent to the Closing, up to and including the date which is twenty-five (25) days following the end (the "End Date") of the Underwriting Period (as hereinafter defined), will be correct and complete in all material respects and will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(d) If, after the date of this Purchase Contract and until the earlier of (i) ninety (90) days after the end of the "underwriting period" (as defined in Rule 15c2-12) (the "Underwriting Period"), or (ii) twenty-five (25) days following the end of the Underwriting Period if the Limited Offering Memorandum is available to any person from the MSRB as contemplated by Rule 15c2-12(b)(4), any event shall occur or circumstance shall exist of which the District has knowledge that would cause the Limited Offering Memorandum to contain any untrue statement of a material fact or to omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, the District shall notify the Underwriter (and for the purpose of this Section provide the Underwriter with such information as it may from time to time reasonably request), and, if in the opinion of the District or the Underwriter such event or circumstance requires the preparation and publication of a supplement or amendment to the Limited Offering Memorandum, the District will, at its expense, supplement or amend the Limited Offering Memorandum in a form and manner jointly approved by the District and the Underwriter and furnish to the Underwriter a reasonable number of copies of such supplement or amendment

provided that the Underwriter promptly agrees that it will notify the District of the end of the Underwriting Period

(e) The District further agrees to provide the Underwriter with the advance refunding documents (as defined in MSRB Rule G-32) in a word-searchable PDF format as described in the MSRB's Rule G-32 and shall provide such electronic copy of the word-searchable PDF format of the advance refunding documents to the Underwriter no later than four (4) business days after the date of Closing to enable the Underwriter to comply with MSRB Rule G-32.

6. The Closing. At 9:00 a.m., California time, on July \_\_, 2019, or at such other time or on such earlier or later business day as shall have been mutually agreed upon by the District and the Underwriter, the District will cause to be executed and delivered: (a) the Certificates in book-entry form through the facilities of The Depository Trust Company ("DTC"), or its agent, on behalf of the Underwriter; and (b) the closing documents hereinafter mentioned at the offices of Special Counsel in San Francisco, California or another place to be mutually agreed upon by the District and the Underwriter. The Underwriter will accept such delivery of the Certificates and pay the purchase price of such Certificates as set forth in Section 1 hereof in immediately available funds to the order of the District. This payment for and delivery of the Certificates, together with the execution and delivery of the aforementioned documents, is herein called the "Closing."

7. District Representations, Warranties and Covenants. The District represents, warrants and covenants to the Underwriter that:

(a) Due Organization, Existence and Authority. The District is a county water district duly organized and existing under the Constitution and laws of the State, with full right, power and authority to execute, deliver and perform its obligations under this Purchase Contract, the Continuing Disclosure Agreement, the Trust Agreement, and the Installment Purchase Contract (collectively, the "District Documents") and to carry out and consummate the transactions contemplated by the District Documents and the Limited Offering Memorandum.

(b) Due Authorization and Approval. By all necessary official action of the District, the District has duly authorized and approved the execution and delivery of, and the performance by the District of the obligations contained or described in, the Preliminary Limited Offering Memorandum, the Limited Offering Memorandum and the District Documents and as of the date hereof, such authorizations and approvals are in full force and effect and have not been amended, modified or rescinded. When executed and delivered, and assuming the authorization, execution and delivery by the other parties thereto, each District Document will constitute the legally valid and binding obligation of the District enforceable in accordance with its terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or similar laws or equitable principles relating to or affecting creditors' rights generally or by the exercise of judicial discretion in appropriate cases or by limitations on legal remedies against public agencies in the State.

(c) Limited Offering Memorandum Accurate and Complete. The District has deemed the Preliminary Limited Offering Memorandum to be final as of the date of the Preliminary Limited Offering Memorandum, as required by Rule 15c2-12. The Preliminary Limited Offering Memorandum was as of its date, and the Limited Offering Memorandum is

as of the date hereof, true and correct in all material respects, and the Preliminary Limited Offering Memorandum and the Limited Offering Memorandum contain no misstatement of any material fact and do not omit any statement necessary to make the statements contained therein, in the light of the circumstances in which such statements were made, not misleading (except no representation is made with respect to information relating to DTC or DTC's book-entry system).

(d) Underwriter's Consent to Amendments and Supplements to Limited Offering Memorandum. The District will advise the Underwriter promptly of any proposal to amend or supplement the Limited Offering Memorandum and will not effect or consent to any such amendment or supplement without the consent of the Underwriter, which consent will not be unreasonably withheld. The District will advise the Underwriter promptly of the institution of any proceedings known to it by any governmental agency prohibiting or otherwise affecting the use of the Limited Offering Memorandum in connection with the offering, sale or distribution of the Certificates.

(e) No Breach or Default. As of the time of acceptance hereof, except as otherwise disclosed in the Limited Offering Memorandum: (A) the District is not in default, nor has it been in default, as to principal or interest with respect to an obligation issued by the District; and (B) the District is not, in any manner which would materially adversely affect the transactions contemplated by the District Documents, in breach of or in default under any applicable constitutional provision, law or administrative rule or regulation of the State or the United States, or any applicable judgment or decree or any trust agreement, loan agreement, bond, note, resolution, ordinance, agreement or other instrument to which the District is a party or is otherwise subject, and no event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute, in any manner which would materially adversely affect the transactions contemplated by the District Documents, a default or event of default under any such instrument; and, as of such time, the authorization, execution and delivery of the District Documents and compliance with the provisions of each of such agreements or instruments do not in any manner which would materially adversely affect the transactions contemplated by the District Documents, conflict with or constitute a breach of or default under any applicable constitutional provision, law or administrative rule or regulation of the State or the United States, or any applicable judgment, decree, license, permit, trust agreement, loan agreement, bond, note, resolution, ordinance, agreement or other instrument to which the District (or any of its officers in their respective capacities as such) is subject, or by which it or any of its properties is bound, nor will any such authorization, execution, delivery or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of its assets or properties or under the terms of any such law, regulation or instrument, except as may be provided by the District Documents.

(f) No Litigation. As of the time of acceptance hereof, no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, government agency, public board or body, is pending or, to the best knowledge of the District after due investigation, threatened: (i) in any way questioning the corporate existence of the District or the titles of the officers of the District to their respective offices; (ii) affecting, contesting or seeking to prohibit, restrain or enjoin the execution or delivery of any of the Certificates, or in any way contesting or affecting the validity of the Certificates or the District Documents or the consummation of the transactions contemplated thereby, or contesting the exclusion of the

interest component of Installment Payments from gross income for federal income tax purposes or contesting the powers of the District to enter into the District Documents; (iii) which, except as described in the Limited Offering Memorandum, may result in any material adverse change to the financial condition of the District or to its ability to pay the Installment Payments when due; or (iv) contesting the completeness or accuracy of the Preliminary Limited Offering Memorandum or the Limited Offering Memorandum or any supplement or amendment thereto or asserting that the Preliminary Limited Offering Memorandum or the Limited Offering Memorandum contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, and there is no basis for any action, suit, proceeding, inquiry or investigation of the nature described in clauses (i) through (iv) of this sentence.

(g) No Prior Liens on Net Revenues. The District does not have outstanding any indebtedness which indebtedness is secured by a lien on the Net Revenues superior to or on a parity with the lien of the Installment Payments on the Net Revenues.

(h) Further Cooperation: Blue Sky. The District will furnish such information, execute such instruments and take such other action in cooperation with the Underwriter with and at the expense of the Underwriter as the Underwriter may reasonably request in order: (i) to qualify the Certificates for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States as the Underwriter may designate and (ii) to determine the eligibility of the Certificates for investment under the laws of such states and other jurisdictions, and will use its best efforts to continue such qualifications in effect so long as required for the distribution of the Certificates; provided, however, that the District shall not be required to execute a general or special consent to service of process or qualify to do business in connection with any such qualification or determination in any jurisdiction.

(i) Consents and Approvals. All authorizations, approvals, licenses, permits, consents and orders of or filings with any governmental authority, legislative body, board, agency or commission having jurisdiction in the matters which are required for the due authorization of, which would constitute a condition precedent to or the absence of which would materially adversely affect the due performance by the District of its obligations in connection with, the District Documents or the acquisition of the Project have been duly obtained or made, except as may be required under the Blue Sky or securities laws of any state in connection with the offering and sale of the Certificates.

(j) No Other Obligations. Between the date of this Purchase Contract and the date of Closing, the District will not, without the prior written consent of the Underwriter, offer or issue any bonds, notes or other obligations for borrowed money, or incur any material liabilities, directly or contingently payable from the Net Revenues.

(k) Certificates. Any certificate signed by any official of the District and delivered to the Underwriter shall be deemed to be a representation and warranty by the District to the Underwriter as to the statements made therein.



(l) Written Information. The written information supplied by the District to the Underwriter with respect to the financial information relating to the Enterprise is true, correct and complete in all material respects for the purposes for which it was supplied.

(m) Use of Proceeds. Substantially all the proceeds from the sale of the Certificates (after deducting the expenses of execution, delivery and sale of the Certificates) will be used to finance and refinance the acquisition and construction of improvements to the Enterprise as described in the Limited Offering Memorandum, and the District will not take or omit to take any action which action or omission will in any way cause the proceeds from the sale of the Certificates to be applied in a manner contrary to that provided in the Installment Purchase Contract, as amended from time to time.

(n) Continuing Disclosure. The District will undertake, pursuant to a Continuing Disclosure Agreement (the “Continuing Disclosure Agreement”), to provide annual reports and notices of certain enumerated events in accordance with the requirements of Rule 15c2-12. A form of the Continuing Disclosure Agreement is set forth as Appendix E to the Limited Offering Memorandum. Except as otherwise disclosed in the Limited Offering Memorandum, the District has not, in the last five years, failed to comply in any material respect in its obligations under any prior continuing disclosure undertaking entered into pursuant to Rule 15c2-12.

8. Closing Conditions. The Underwriter has entered into this Purchase Contract in reliance upon the representations, warranties and covenants herein and the performance by the District of its obligations hereunder, both as of the date hereof and as of the date of the Closing. The Underwriter’s obligations under this Purchase Contract are and shall be subject to the following additional conditions:

(a) Bring-Down Representation. The representations, warranties and covenants of the District contained herein, shall be true, complete and correct at the date hereof and at the time of the Closing, as if made on the date of the Closing.

(i) Executed Agreements and Performance Thereunder. At the time of the Closing: (A) the District Documents and the Corporation Documents (as hereinafter defined) shall be in full force and effect, and shall not have been amended, modified or supplemented except with the written consent of the Underwriter; (B) there shall be in full force and effect such resolutions adopted by the District (the “District Resolution”) and the Corporation (the “Corporation Resolution”) as, in the opinion of Special Counsel, shall be necessary in connection with the transactions contemplated by the Limited Offering Memorandum, the District Documents and the Corporation Documents; (C) the District shall perform or have performed its obligations required or specified in the District Documents to be performed at or prior to Closing; (D) the Corporation shall perform or have performed its obligations required or specified in the Corporation Documents to be performed at or prior to Closing; and (E) the Limited Offering Memorandum shall not have been supplemented or amended, except pursuant to Paragraphs 6(d) and 6(e) hereof or as otherwise may have been agreed to in writing by the Underwriter.

(ii) No Default. At the time of the Closing, no default, or any event that with the passage of time would be reasonably likely to result in default, shall have

occurred or be existing under the Corporation Resolution, the Corporation Documents, the District Resolution, the District Documents, or any other agreement or document pursuant to which any of the District's financial obligations was issued and the District shall not be in default in the payment of principal or interest on any of its financial obligations which default would materially adversely impact the ability of the District to make the Installment Payments.

(b) Termination Events. Between the date hereof and the Closing, the market price or marketability or the ability of the Underwriter to enforce contracts for the sale of the Certificates, at the initial offering prices set forth in the Limited Offering Memorandum, of the Certificates shall not have been materially adversely affected in the reasonable judgment of the Underwriter (evidenced by a written notice to the District terminating the obligation of the Underwriter to accept delivery of and pay for the Certificates) by reason of any of the following:

(i) Legislation shall be enacted by or introduced in the Congress of the United States or recommended to the Congress for passage by the President of the United States, or the Treasury Department of the United States or the Internal Revenue Service or favorably reported for passage to either House of the Congress by any committee of such House to which such legislation has been referred for consideration, a decision by a court of the United States or of the State or the United States Tax Court shall be rendered, or an order, ruling, regulation (final, temporary or proposed), press release, statement or other form of notice by or on behalf of the Treasury Department of the United States, the Internal Revenue Service or other governmental agency shall be made or proposed, the effect of any or all of which would be to alter, directly or indirectly, federal income taxation upon interest received on obligations of the general character of the Certificates, or the interest on the Certificates as described in the Limited Offering Memorandum, or other action or events shall have transpired which may have the purpose or effect, directly or indirectly, of changing the federal income tax consequences of any of the transactions contemplated herein; or

(ii) Legislation introduced in or enacted (or resolution passed) by the Congress or an order, decree, or injunction issued by any court of competent jurisdiction, or an order, ruling, regulation (final, temporary, or proposed), press release or other form of notice issued or made by or on behalf of the Securities and Exchange Commission, or any other governmental agency having jurisdiction of the subject matter, to the effect that obligations of the general character of the Certificates are not exempt from registration under or other requirements of the Securities Act of 1933, as amended, or that the Trust Agreement is not exempt from qualification under or other requirements of the Trust Indenture Act of 1939, as amend, or that the issuance, offering, or sale of obligations of the general character of the Certificates, as contemplated hereby or by the Limited Offering Memorandum or otherwise, is or would be in violation of the federal securities law as amended and then in effect; or

(iii) A general suspension of trading in securities on the New York Stock Exchange or any other national securities exchange, the establishment of minimum or maximum prices on any such national securities exchange, the establishment of material restrictions (not in force as of the date hereof) upon trading securities generally by any governmental authority or any national securities exchange, or any material

increase of restrictions now in force (including, with respect to the extension of credit by, or the charge to the net capital requirements of, the Underwriter); or

(iv) A general banking moratorium shall have been established by federal, New York or California authorities; or

(v) Establishment of any new restrictions in securities materially affecting the free market for securities of the same nature as the Certificates (including the imposition of any limitations on interest rates) or the charge to the net capital requirements of the Underwriter established by the New York Stock Exchange, the Securities and Exchange Commission, any other Federal or state agency or the Congress of the United States, or by Executive Order; or

(vi) The occurrence of an adverse event in the affairs of the District which, in the opinion of the Underwriter, materially impairs the investment quality of the Certificates; or

(vii) Any amendment to the federal or California Constitution or action by any federal or California court, legislative body, regulatory body or other authority materially adversely affecting the tax status of the District, its property, income or securities (or interest thereon), or the ability of the District to execute the Installment Purchase Contract, of the Trustee to execute and deliver the Certificates and pledge the Net Revenues as contemplated by the Trust Agreement or the Limited Offering Memorandum or of the District to pledge the W as contemplated by the Installment Purchase Contract or the Limited Offering Memorandum; or

(viii) There shall have occurred any (1) new material outbreak of hostilities (including, without limitation, an act of terrorism) or (2) new material other national or international calamity or crisis, or any material adverse change in the financial, political or economic conditions affecting the United States, including, but not limited to, an escalation of hostilities that existed prior to the date hereto; or

(ix) There shall have occurred since the date of this Purchase Contract any materially adverse change in the affairs or financial position, results of operations or condition, financial or otherwise, of the District, other than changes in the ordinary course of business or activity or in the normal operation of the District, except as described in the Limited Offering Memorandum; or

(x) Any event occurring, or information becoming known which, in the reasonable judgment of the Underwriter, makes untrue in any material respect any statement or information contained in the Preliminary Limited Offering Memorandum or the Limited Offering Memorandum, or results in the Preliminary Limited Offering Memorandum or the Limited Offering Memorandum containing any untrue statement of a material fact or omitting to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; or

(xi) A material disruption in securities settlement, payment or clearance services affecting the Certificates shall have occurred; or

(xii) An event described in Section 7(f) hereof shall have occurred which, in the reasonable judgment of the Underwriter, requires the preparation and publication of a supplement or amendment to the Limited Offering Memorandum; or

(xiii) Any rating of the Certificates or other obligations of the District by a national rating agency shall have been withdrawn or downgraded.

(c) Closing Documents. At or prior to the Closing, the Underwriter shall receive with respect to the Certificates the following documents:

(i) Certificates Opinion. An approving opinion of Special Counsel dated the date of the Closing and substantially in the form included as Appendix C to the Limited Offering Memorandum, together with a letter from such counsel, dated the date of the Closing and addressed to the Trustee and the Underwriter, to the effect that the foregoing opinion addressed to the District may be relied upon by the Trustee and the Underwriter to the same extent as if such opinion were addressed to them.

(ii) Supplemental Opinion. A supplemental opinion, dated as of the date of the Closing and addressed to the Underwriter, of Special Counsel, substantially to the following effect:

(A) The statements contained in the Limited Offering Memorandum relating to the Certificates on the cover page and under the captions "THE CERTIFICATES," "SECURITY FOR THE CERTIFICATES," "TAX MATTERS," and in Appendix A and Appendix C thereto, insofar as such statements purport to summarize certain provisions of the Certificates, the Trust Agreement, the Installment Purchase Contract, California State law and our opinions concerning certain federal tax matters relating to the Certificates, present a fair and accurate summary of such provisions (except that no representation is made with respect to information relating to DTC or DTC's book entry only system);

(B) The Certificates are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Trust Agreement is exempt from qualification pursuant to the Trust Indenture Act of 1939, as amended; and

(C) The Purchase Contract has been duly authorized, executed and delivered by the District and (assuming due authorization, execution and delivery by the Underwriter) constitutes a valid and binding agreement of the District enforceable according to its terms, subject to any applicable bankruptcy, reorganization, insolvency, moratorium or other law affecting the enforcement of creditors' rights generally.

(iii) Negative Assurances Letter. A letter of Nossaman LLP, as disclosure counsel to the District ("Disclosure Counsel"), dated the date of the Closing and addressed to the District and the Underwriter, to the effect that, without passing upon or assuming any responsibility for the accuracy, completeness or fairness of the statements contained in the Limited Offering Memorandum and making no

representation that they have independently verified the accuracy, completeness or fairness of any such statements, based upon the information made available to them in the course of their participation in the preparation of the Limited Offering Memorandum as Disclosure Counsel, nothing has come to their attention which would lead them to believe that the Limited Offering Memorandum (excluding therefrom financial statements and the statistical data, the financial statements included in Appendix D thereto, information related to the District's compliance with any obligation to provide notice of the events described in part (b)(5)(i)(C) of the Rule or to file annual reports described in part (b)(5)(i)(A) of the Rule, any information with respect to the Underwriter or underwriting matters with respect to the Certificates, including but not limited to information under the caption "UNDERWRITING" and DTC in the Limited Offering Memorandum, as to which no opinion need be expressed) contains an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(iv) District Counsel Opinion. An opinion of Nossaman LLP, Los Angeles, California, general counsel to the District, dated the date of the Closing and addressed to the Underwriter, in form and substance acceptable to the Underwriter substantially to the following effect:

(A) The District is a county water district organized and validly existing under the constitution and the laws of the State of California.

(B) The preparation and distribution of the Limited Offering Memorandum and the District Documents have been duly approved by the District.

(C) The resolution of the District approving and authorizing the execution and delivery of the District Documents duly adopted at a meeting of the Board of Directors of the District, which was called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout and the resolution is in full force and effect and has not been modified, amended or rescinded.

(D) To the best of our knowledge, the execution and delivery of the District Documents and compliance with the provisions thereof, under the circumstances contemplated thereby, do not and will not, in any respect which will have a material adverse impact on the transactions contemplated by the District Documents, conflict with, or constitute on the part of the District a breach of or default under, any material agreement or other instrument to which the District is a party or by which it is bound or any existing law, regulation, court order or consent decree to which the District is subject (excluding, however, any opinion as to compliance with any applicable federal or state securities laws).

(E) The District Documents and the Limited Offering Memorandum have been duly authorized, executed and delivered by the District, and, assuming due authorization, execution and delivery by the other

parties thereto, the District Documents constitute legal, valid and binding agreements of the District enforceable in accordance with their respective terms, except as the enforcement thereof may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and by the application of equitable principles if sought and by the limitations on legal remedies imposed on actions against public agencies in the State of California,

(F) No additional authorization, approval, consent, waiver or any other action by any person, board or body, public or private, not previously obtained is required as of the date hereof for the District to enter into the District Documents or to perform its obligations thereunder (excluding, however, any opinion as to compliance with any applicable federal or state securities laws).

(G) We know of no litigation, proceeding, action, suit, or investigation (or any basis therefor) at law or in equity before or by any court, governmental agency or body, pending or, to our best knowledge, threatened, against the District challenging the creation, organization or existence of the District, or the validity of the District Documents or seeking to restrain or enjoin the Installment Payments or in any way contesting or affecting the validity of the District Documents or any of the transactions referred to therein or contemplated thereby or contesting the authority of the District to enter into or perform its obligations under any of the District Documents, or under which a determination adverse to the District would have a material adverse effect upon the financial condition or the Net Revenues of the District, or which, in any manner, questions or affects the right or ability of the District to enter into the District Documents or affects in any manner the right or ability of the District to make the Installment Payments.

(v) Corporation Counsel Opinion. An opinion of \_\_\_\_\_, counsel to the Corporation, dated the date of the Closing and addressed to the Underwriter, in form and substance acceptable to the Underwriter substantially to the following effect:

(A) The Corporation is a nonprofit public benefit corporation, duly created and lawfully existing under the laws and Constitution of the State.

(B) The Trust Agreement, the Installment Purchase Contract and the Assignment Agreement (collectively, the "Corporation Documents") have been duly executed and delivered by the Corporation and, assuming due authorization, execution and delivery by the other parties thereto, the Corporation Documents constitute legally valid and binding obligations of the Corporation, enforceable against the Corporation in accordance with their respective terms, except as enforcement thereof may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or other similar laws or equitable principles relating to or limiting creditors' rights generally or by the exercise of judicial discretion in appropriate cases or by limitations or legal remedies against public agencies in the State, and expressing no opinion as to the availability of equitable remedies.

(C) To the best of such counsel's knowledge after due inquiry, execution and delivery or acknowledgment of the Corporation Documents and compliance with the provisions thereof, under the circumstances contemplated thereby, do not and will not conflict with any existing law, regulation, court order or consent decree to which the Corporation is subject or constitute on the part of the Corporation a breach of or default under any agreement or other instrument to which the Corporation is a party or by which it is bound.

(vi) Trustee Counsel Opinion. The opinion of counsel to the Trustee, dated the date of the Closing, addressed to the Underwriter, to the effect that:

(A) The Trustee is a national banking association duly organized and validly existing under the laws of the jurisdiction of its origin and has the corporate power to execute and deliver the Trust Agreement and the Assignment Agreement (together with the Trust Agreement, the "Trustee Documents") and any other documentation relating to the Trustee Documents, and to perform its obligations under the Trustee Documents;

(B) The execution and delivery by the Trustee of the Trustee Documents and any other documentation relating to the Trustee Documents, and its performance of its obligations under the Trustee Documents, have been and are as of the date hereof duly authorized by all necessary corporate action;

(C) No approval, authorization or other action by, or filing with, any governmental body or regulatory authority (which has not been obtained) is required in connection with the due execution, delivery and performance by the Trustee of the Trustee Documents;

(D) The Trustee Documents have been duly executed and delivered and constitute the valid and legally binding obligations of the Trustee enforceable against it in accordance with their terms except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and by general principles of equity (regardless of whether enforcement is sought as a proceeding in equity or at law).

(E) No consent, approval, authorization or other action by any governmental or regulatory authority having jurisdiction over the banking or trust powers of the Trustee that has not been obtained is or will be required for the execution and delivery of the Certificates or the consummation by the Trustee of its obligations under the Trustee Documents.

(vii) District Certificate. A certificate of the District, dated the date of the Closing, signed on behalf of the District by the District Manager or other duly authorized officer of the District to the effect that:

(A) The representations, warranties and covenants of the District contained in the Purchase Contract are true and correct in all material respects on and as of the date of the Closing as if made on the date of the Closing and

the District has complied with all of the terms and conditions of the Purchase Contract required to be complied with by the District at or prior to the date of the Closing;

(B) No event affecting the District has occurred since the date of the Limited Offering Memorandum which has not been disclosed therein or in any supplement or amendment thereto which event should be disclosed in the Limited Offering Memorandum in order to make the statements therein, in the light of the circumstances under which they were made, not misleading in any material respect except that such certificate need not include representations relating to DTC or the book entry only system; and

(C) No event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute an Event of Default under the District Documents.

(viii) Corporation Certificate. A certificate of the Corporation, dated the date of the Closing, signed on behalf of the Corporation by a duly authorized officer of the Corporation to the effect that:

(A) The Corporation has complied with all of the terms and conditions of the Purchase Contract required to be complied with by the Corporation at or prior to the date of the Closing;

(B) No event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute an event of default under the Corporation Documents;

(C) The Corporation is a nonprofit public benefit corporation duly organized and existing under the Constitution and laws of the State, with full right, power and authority to adopt the Corporation Resolution and to execute, deliver and perform its obligations under the Corporation Documents and to carry out and consummate the transactions contemplated by the Corporation Documents and the Limited Offering Memorandum;

(D) By all necessary official action of the Corporation, the Corporation has duly adopted the Corporation Resolution and authorized and approved the execution and delivery of, and the performance by the Corporation of the obligations contained or described in the Corporation Documents and as of the date hereof, such authorizations and approvals are in full force and effect and have not been amended, modified or rescinded. When executed and delivered, each Corporation Document will constitute the legally valid and binding obligation of the Corporation enforceable in accordance with its terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or similar laws or equitable principles relating to or affecting creditors' rights generally or by the exercise of judicial discretion in appropriate cases or by limitations on legal remedies against public agencies in the State;



(E) The Corporation is not, in any manner which would materially adversely affect the transactions contemplated by the Corporation Documents, in breach of or in default under any applicable constitutional provision, law or administrative rule or regulation of the State or the United States, or any applicable judgment or decree or any trust agreement, loan agreement, bond, note, resolution, ordinance, agreement or other instrument to which the Corporation is a party or is otherwise subject, and no event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute, in any manner which would materially adversely affect the transactions contemplated by the Corporation Documents, a default or event of default under any such instruments; and, as of such time, the authorization, execution and delivery of the Corporation Documents and compliance with the provisions of each of such agreements or instruments do not in any manner which would materially adversely affect the transactions contemplated by the Corporation Documents, conflict with or constitute a breach of or default under any applicable constitutional provision, law or administrative rule or regulation of the State or the United States, or any applicable judgment, decree, license, permit, trust agreement, loan agreement, bond, note, resolution, ordinance, agreement or other instrument to which the Corporation (or any of its officers in their respective capacities as such) is subject, or by which it or any of its properties is bound, nor will any such authorization, execution, delivery or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of its assets or properties or under the terms of any such law, regulation or instrument, except as may be provided by the Corporation Documents;

(F) As of the time of acceptance hereof, no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, government agency, public board or body, is pending or, to the best knowledge of the Corporation after due investigation, threatened: (1) in any way questioning the corporate existence of the Corporation or the titles of the officers of the Corporation to their respective offices; or (2) affecting, contesting or seeking to prohibit, restrain or enjoin the execution or delivery of any of the Certificates, or in any way contesting or affecting the validity of the Certificates or the Corporation Documents or the consummation of the transactions contemplated thereby, or contesting the exclusion of the interest component of Installment Payments from gross income for federal income tax purposes or contesting the powers of the Corporation to enter into the Corporation Documents;

(G) The Corporation will furnish such information, execute such instruments and take such other action in cooperation with the Underwriter as the Underwriter may reasonably request in order: (1) to qualify the Certificates for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States as the Underwriter may designate; and (2) to determine the eligibility of the Certificates for investment under the laws of such states and other jurisdictions, and will use its best efforts to continue such qualifications in effect so long as required for

the distribution of the Certificates; provided, however, that the Corporation shall not be required to execute a general or special consent to service of process or qualify to do business in connection with any such qualification or determination in any jurisdiction;

(H) All authorizations, approvals, licenses, permits, consents and orders of or filings with any governmental authority, legislative body, board, agency or commission having jurisdiction in the matters which are required for the due authorization of, which would constitute a condition precedent to or the absence of which would materially adversely affect the due performance by the Corporation of its obligations in connection with, the Corporation Documents or the acquisition of the Project have been duly obtained or made, except as may be required under the Blue Sky or securities laws of any state in connection with the offering and sale of the Certificates; and

(I) Any certificate signed by any official of the Corporation and delivered to the Underwriter shall be deemed to be a representation and warranty by the Corporation to the Underwriter as to the statements made therein.

(ix) Trustee's Certificate. A certificate, dated the date of Closing, signed by a duly authorized official of the Trustee satisfactory in form and substance to the Underwriter, to the effect that:

(A) The Trustee is duly organized and existing as a national banking association under the laws of the United States of America, having the full corporate power and authority to enter into and perform its duties under the Trustee Documents;

(B) The Trustee is duly authorized to enter into the Trustee Documents and has duly executed and delivered the Trustee Documents, and assuming due authorization and execution by the other parties thereto, the Trustee Documents are legal, valid and binding upon the Trustee, and enforceable against the Trustee in accordance with their terms;

(C) The Trustee has duly executed the Certificates under the Trust Agreement and delivered the Certificates to or upon the order of the Underwriter; and

(D) No consent, approval, authorization or other action by any governmental or regulatory authority having jurisdiction over the banking or trust powers of the Trustee that has not been obtained is or will be required for the execution and delivery of the Certificates or the consummation by the Trustee of its obligations under the Trustee Documents.

(x) Transcripts. Two transcripts of all proceedings relating to the authorization, execution and delivery of the Certificates.

(xi) Rule 15c2-12 Certificate. A certificate, dated the date of the Preliminary Limited Offering Memorandum, signed by a duly authorized official of the District deeming the Preliminary Limited Offering Memorandum “final” for purposes of Rule 15c2-12.

(xii) Limited Offering Memorandum. The Limited Offering Memorandum and each supplement or amendment, if any, thereto, executed on behalf of the District by duly authorized officers of the District.

(xiii) Documents. An original executed copy of each of the Corporation Documents and each of the District Documents.

(xiv) District Resolution. Two certified copies of the District Resolution, certified by the District Secretary.

(xv) Corporation Resolution. Two certified copies of the Corporation Resolution, certified by the Secretary or Assistant Secretary of the Corporation.

(xvi) Trustee Resolution. Two certified copies of the general resolution of the Trustee authorizing the execution and delivery of certain documents by certain officers and employees of the Trustee, which resolution authorizes the execution and delivery of the Trustee Documents.

(xvii) 8038-G. Evidence that the federal tax information form 8038-G has been prepared for filing with respect to the Certificates.

(xviii) Tax Certificate. A tax certificate in form satisfactory to Special Counsel, including the issue price certificate executed by the Underwriter in substantially the form attached hereto as Appendix B.

(xix) CDAIC Statements. A copy of the Notices of Sale required to be delivered to the California Debt Advisory and Investment Commission pursuant to Sections 8855(g) and 53583 of the California Government Code.

(xx) Specimen. A specimen of an executed Certificate.

(xxi) Insurance Policy. The Insurance Policy, duly executed by the Insurer.

(xxii) Certificate Reserve Policy. The Certificate Reserve Policy, duly executed by the Insurer.

(xxiii) Insurer’s Counsel Opinion. An opinion of counsel to the Insurer, dated the date of the Closing, addressed to the District and the Underwriter, in form and substance satisfactory to the Underwriter and Special Counsel

(xxiv) Insurer’s Certificate. a certificate or certificates of the Insurer, dated the date of the Closing, as to the accuracy of the information relating to the Insurer, the Insurance Policy and the Certificate Reserve Policy included in the Limited Offering Memorandum and such other matters reasonably requested by the Underwriter and Special Counsel.

(xxv) Additional Documents. Such additional certificates, instruments and other documents as the Underwriter may reasonably deem necessary.

If the District shall be unable to satisfy the conditions contained in this Purchase Contract, or if the obligations of the Underwriter shall be terminated for any reason permitted by this Purchase Contract, this Purchase Contract shall terminate and neither the Underwriter, nor the District shall be under further obligation hereunder, except as further set forth in Section 9 hereof.

9. Expenses. The Underwriter shall be under no obligation to pay and the District shall pay or cause to be paid the expenses incident to the performance of the obligations of the District hereunder including but not limited to: (a) the costs of the preparation and printing, or other reproduction (for distribution on or prior to the date hereof) of the District Documents and the Corporation Documents and the cost of preparing, printing, issuing and delivering the Certificates; (b) the fees and disbursements of any counsel, accountants or other experts or consultants retained by the District, including the Trustee; (c) the fees and disbursements of Nossaman LLP, as Special Counsel; (d) the cost of printing and distributing the Preliminary Limited Offering Memorandum and any supplements and amendments thereto and the cost of printing and distributing the Limited Offering Memorandum and any supplements and amendments thereto, including a reasonable number of copies thereof for distribution by the Underwriter; and (e) expenses (included in the expense component of the Underwriter's spread) incurred on behalf of the District's officers or employees which are incidental to implementing this Purchase Contract, including, but not limited to, meals, transportation, lodging, and entertainment of those officers or employees.

The District has agreed to pay the Underwriter's discount set forth in Section 1 of this Purchase Contract, and inclusive in the expense component of the Underwriter's discount are actual expenses incurred or paid for by the Underwriter on behalf of the District in connection with the marketing, issuance, and delivery of the Certificates, including, but not limited to, advertising expenses, the costs of any Preliminary and Final Blue Sky Memoranda, CUSIP fees, and transportation, lodging, and meals for the District's employees and representatives.

10. Notice. Any notice or other communication to be given to the District under this Purchase Contract may be given by delivering the same in writing to San Lorenzo Valley Water District, 13060 CA-9, Boulder Creek, California 95006, Attention: Director of Finance and Business Services.

Any notice or other communication to be given to the Underwriter under this Purchase Contract may be given by delivering the same in writing to Municipal Capital Markets Group, Inc., [ADDRESS].

11. Entire Agreement. This Purchase Contract, when accepted by the District, shall constitute the entire agreement between the District and the Underwriter and is made solely for the benefit of the District and the Underwriter (including the successors of the Underwriter). No other person shall acquire or have any right hereunder by virtue hereof, except as provided herein. All of the District's representations, warranties and agreements in this Purchase Contract shall remain operative and in full force and effect until the earlier of: (a) delivery of and payment for the Certificates hereunder; and (b) any termination of this Purchase Contract.

12. Counterparts. This Purchase Contract may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument.

13. Severability. In case any one or more of the provisions contained herein shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions hereof, State law Governs. The validity, interpretation and performance of this Purchase Contract shall be governed by the laws of the State.

14. STATE LAW GOVERNS. THE VALIDITY, INTERPRETATION AND PERFORMANCE OF THIS PURCHASE CONTRACT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF CALIFORNIA.

*[Remainder of page intentionally left blank]*

14. No Assignment. The rights and obligations created by this Purchase Contract shall not be subject to assignment by the Underwriter or the District without the prior written consent of the other party hereto.

MUNICIPAL CAPITAL MARKETS  
GROUP, INC.

By: \_\_\_\_\_  
Authorized Officer

Accepted as of the date  
first stated above:

SAN LORENZO VALLEY WATER DISTRICT

By: \_\_\_\_\_  
District Manager

Time of Execution: \_\_\_\_\_

**APPENDIX A**

**MATURITY SCHEDULE; OPTIONAL PREPAYMENT PROVISIONS**

<b><u>Maturity Date (September 1)</u></b>	<b><u>Principal Amount</u></b>	<b><u>Interest Rate</u></b>	<b><u>Price</u></b>	<b><u>10% Test Satisfied*</u></b>	<b><u>10% Test Not Satisfied</u></b>	<b><u>Subject to Hold-The- Offering-Price Rule</u></b>
	\$	%				

<sup>c</sup> Priced to first par call date on September 1, 20\_\_.

\* At the time of execution of this Purchase Agreement and assuming orders are confirmed by the close of the business day immediately following the date of this Purchase Agreement.

***Optional Prepayment.*** The Certificates shall not be subject to optional prepayment prior to September 1, 20\_\_. The Certificates are subject to prepayment, in whole or in part in any integral multiple of \$5,000, at the option of the District on any date on or after September 1, 20\_\_, from any available source of funds, at the prepayment price equal to the principal amount of the Certificates to be prepaid from the proceeds of such prepayment, in each case together with accrued interest thereon to the prepayment date, without premium.

## APPENDIX B

### FORM OF ISSUE PRICE CERTIFICATE

Municipal Capital Markets Group, Inc. (“MCM”) has acted as underwriter in connection with the execution and delivery by the San Lorenzo Valley Water District (the “District”), of \$\_\_\_\_\_ Revenue Certificates of Participation, Series 2019 (the “Certificates”) being issued on the date hereof, and MCM hereby certifies and represents the following:

1. Sale of the General Rule Maturities. As of the date of this certificate, for each Maturity of the General Rule Maturities, the first price at which at least 10% of such Maturity was sold to the Public is the respective price listed in Schedule A.

2. Initial Offering Price of the Hold-the-Offering-Price Maturities. (a) MCM offered the Hold-the-Offering-Price Maturities to the Public for purchase at the respective initial offering prices listed in Schedule A (the “Initial Offering Prices”) on or before the Sale Date. A copy of the pricing wire or equivalent communication for the Certificates is attached to this certificate as Schedule B.

(b) As set forth in the Purchase Contract, dated July \_\_, 2019, by and between MCM and the District, MCM has agreed in writing that, (i) for each Maturity of the Hold-the-Offering-Price Maturities, it would neither offer nor sell any of the Certificates of such Maturity to any person at a price that is higher than the Initial Offering Price for such Maturity during the Holding Period for such Maturity (the “hold-the-offering-price rule”), and (ii) any selling group agreement shall contain the agreement of each dealer who is a member of the selling group, and any retail distribution agreement shall contain the agreement of each broker-dealer who is a party to the retail distribution agreement, to comply with the hold-the-offering-price rule. Pursuant to such agreement, no Underwriter (as defined below) has offered or sold any Maturity of the Hold-the-Offering-Price Maturities at a price that is higher than the respective Initial Offering Price for that Maturity of the Certificates during the Holding Period.

#### Defined Terms.

- (a) *General Rule Maturities* means those Maturities of the Certificates listed in Schedule A hereto as the “General Rule Maturities.”
- (b) *Hold-the-Offering-Price Maturities* means those Maturities of the Certificates listed in Schedule A hereto as the “Hold-the-Offering-Price Maturities.”
- (c) *Holding Period* means, with respect to a Hold-the-Offering-Price Maturity, the period starting on the Sale Date and ending on the earlier of (i) the close of the fifth business day after the Sale Date, or (ii) the date on which MCM has sold at least 10% of such Hold-the-Offering-Price Maturity to the Public at prices that are no higher than the Initial Offering Price for such Hold-the-Offering-Price Maturity.
- (d) *Maturity* means Certificates with the same credit and payment terms. Certificates with different maturity dates, or Certificates with the same maturity date but different stated interest rates, are treated as separate Maturities.



- (e) *Public* means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than MCM or a Related Party to MCM.
- (f) *Related Party* means any entity if an Underwriter and such entity are subject, directly or indirectly, to (i) more than 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profit interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other).
- (g) *Sale Date* means the first day on which there is a binding contract in writing for the sale of a Maturity of the Certificates. The Sale Date of the Certificates is July \_\_, 2019.
- (h) *Underwriter* means (i) any person that agrees pursuant to a written contract with the District (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Certificates to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this paragraph to participate in the initial sale of the Certificates to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Certificates to the Public).

MCM understands that the foregoing information will be relied upon by the District with respect to certain of the representations set forth in the Tax Certificate and Purchase Contract to which this certificate is included as Exhibit A and with respect to compliance with the federal income tax rules affecting the Certificates, and by Nossaman LLP, in connection with its opinion as to the exclusion of interest on the Certificates from federal gross income, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the District from time to time relating to the Certificates. MCM is certifying only as to facts in existence on the date hereof. Nothing herein represents MCM's interpretation of any laws; in particular the Treasury Regulations under the Internal Revenue Code of 1986, or the application of any laws to these facts. The certifications contained herein are not necessarily based on personal knowledge, but may instead be based on either inquiry deemed adequate by the undersigned or institutional knowledge (or both) regarding the matters set forth herein.

MUNICIPAL CAPITAL MARKETS GROUP, INC.

By: \_\_\_\_\_  
Name: \_\_\_\_\_

Dated: \_\_\_\_\_, 2019

**SCHEDULE A**

**SALE PRICES OF THE GENERAL RULE MATURITIES AND INITIAL OFFERING  
PRICES OF THE HOLD-THE-OFFERING-PRICE MATURITIES**

(To be Attached)

**SCHEDULE B**  
**PRICING WIRE OR EQUIVALENT COMMUNICATION**

**Attachment 6**

\$ \_\_\_\_\_  
**SAN LORENZO VALLEY WATER DISTRICT  
REVENUE CERTIFICATES OF PARTICIPATION  
SERIES 2019**

**CONTINUING DISCLOSURE AGREEMENT**

This Continuing Disclosure Agreement (the “Disclosure Agreement”), dated as of July 1, 2019, is executed and delivered by the San Lorenzo Valley Water District (“District”) and [Zions Bancorporation, National Association] (the “Trustee”), as Trustee and Dissemination Agent in connection with the execution and delivery of the San Lorenzo Valley Water District Revenue Certificates of Participation, Series 2019 (the “Certificates”), in the aggregate principal amount of \$\_\_\_\_\_, evidencing proportionate interests of the registered owners thereof in certain Installment Payments (described herein) to be made by the San Lorenzo Valley Water District (the “District”) to the Municipal Finance Corporation (the “Corporation”). The Certificates are being executed and delivered pursuant to the provisions of a Trust Agreement, dated as of July 1, 2019 (the “Trust Agreement”), among the District, the Corporation and the Trustee. The District and Trustee covenant and agree as follows:

Section 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the District and the Trustee for the benefit of the Holders and Beneficial Owners of the Certificates from time to time and in order to assist the Participating Underwriter in complying with the Rule (defined below).

Section 2. Definitions. In addition to the definitions set forth in the Trust Agreement, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“*Annual Report*” means any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“*BAM*” means the Build America Mutual Assurance Company, a mutual insurance corporation organized under the laws of the State of New York.

“*Beneficial Owner*” means any person which has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Certificates, including persons holding Certificates through nominees or depositories.

“*Dissemination Agent*” means the Trustee, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation.

“*Fiscal Year*” means the twelve month period beginning on July 1 of each year and ending on June 30 of the following year.

“*Holders*” means either the registered owners of the Certificates, or, if the Certificates are registered in the name of The Depository Trust Company or another recognized depository, any applicable participant in its depository system.

“*Listed Events*” means any of the events listed in Section 5(a) of this Disclosure Agreement.

“*MSRB*” means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission (the “SEC”) as the sole repository of disclosure information for purposes of the Rule, or any other repository of disclosure information that may be designated by the SEC as such for purposes of the Rule in the future.

“*Limited Offering Memorandum*” means the Limited Offering Memorandum relating to the Certificates.

“*Participating Underwriter*” means the original underwriter of the Certificates required to comply with the Rule in connection with the offering of the Certificates.

“*Rule*” means Rule 15c2-12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 3. Provision of Annual Reports. (a) The District shall, or shall cause the Dissemination Agent to, not later than nine months (presently March 31st, the “Annual Report Filing Deadline”) after the end of the District’s Fiscal Year, commencing with the report for the 2018-19, provide to the MSRB (and upon request each year to the Participating Underwriter) an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Agreement. If the Annual Report Filing Deadline falls on a non-business day, then the Annual Report will be submitted on the next regularly scheduled business day. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the District may be submitted separately from the balance of the Annual Report and later than the Annual Report Filing Deadline if they are not available by that date. The District shall give notice of any change in its Fiscal Year in the same manner as for a Listed Event under Section 5.

(b) Not later than fifteen (15) Business Days prior to the Annual Report Filing Deadline, the District shall provide the Annual Report to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent). If by such date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the District and the Trustee to determine if the District is in compliance with the first sentence of this subsection (b).

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the MSRB by the Annual Report Filing Deadline, the Dissemination Agent shall send a notice to the MSRB in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

(i) determine each year prior to the Annual Report Filing Deadline the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and

(ii) file a report with the District and (if the Dissemination Agent is not the Trustee) the Trustee certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided to the MSRB.

Section 4. Content of Annual Reports. The District's Annual Report shall contain, or incorporate by reference, the following updated information for the prior Fiscal Year:

(a) The audited financial statements of the District for the prior Fiscal Year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the audited financial statements of the District are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Limited Offering Memorandum, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) To the extent not contained in the audited financial statements filed pursuant to the preceding clause (a), the Annual Report shall contain information showing the following tables and information contained in the Limited Offering Memorandum: [TO BE UPDATED].

- (i) [Historical Water Supply (Table 3);
- (ii) Historical Assessments (for such Fiscal Year only) (Table 8); and
- (iii) Unencumbered Reserves (for such Fiscal Year only) (Table 10).]

(c) In addition to any of the information expressly required to be provided under paragraphs (a) and (b) of this Section, the District shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Any or all of the items listed above may be incorporated by reference from other documents, including Limited Offering Memorandums of debt issues of the District or related public entities, which are available to the public on the MSRB's Internet web site or filed with the Securities and Exchange Commission. If the document incorporated by reference is a final Limited Offering Memorandum, it must be available from the MSRB. The District shall clearly identify each such other document so incorporated by reference.

Section 5. Reporting of Listed Events. (a) The District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Certificates not later than ten business days after the occurrence of the event:

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults, if material;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;

- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax-exempt status of the security;
- (7) Modifications to rights of security holders, if material;
- (8) Certificate calls, if material, and tender offers;
- (9) Defeasances;
- (10) Release, substitution, or sale of property securing repayment of the securities, if material;
- (11) Rating changes;
- (12) Bankruptcy, insolvency, receivership or similar event of the District or other obligated person;
- (13) The consummation of a merger, consolidation, or acquisition involving the District or an obligated person, or the sale of all or substantially all of the assets of the District or an obligated person (other than in the ordinary course of business), the entry into a definitive agreement to undertake such an action, or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) Whenever the District obtains knowledge of the occurrence of a Listed Event, the District shall, or shall cause the Dissemination Agent (if not the District) to, file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Certificates under the Trust Agreement.

(c) The District acknowledges that the events described in subparagraphs (a)(2), (a)(7), (a)(8) (if the event is a Certificate call), (a)(10), (a)(13), and (a)(14) of this Section 5 contain the qualifier “if material.” The District shall cause a notice to be filed as set forth in paragraph (b) above with respect to any such event only to the extent that the District determines the event’s occurrence is material for purposes of U.S. federal securities law.

(d) For purposes of this Disclosure Agreement, any event described in paragraph (a)(12) above is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or

governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District.

Section 6. Termination of Reporting Obligation. The District's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior prepayment or payment in full of all of the Certificates.

Section 7. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign by providing thirty (30) days written notice to the District. If at any time there is not any other designated Dissemination Agent, the Trustee shall be the Dissemination Agent. Any company succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor to the Dissemination Agent hereunder without the execution or filing of any paper or any further act.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the District and the Trustee may amend this Disclosure Agreement (and the Trustee shall agree to any amendment so requested by the District to the extent that such amendment does not adversely affect the Trustee), and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) the amendment or waiver, if it relates to annual or event information to be provided, is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the District, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Certificates, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver (i) is approved by holders of the Certificates in the manner provided in the Trust Agreement for amendments to the Trust Agreement with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of holders.

Section 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that



which is specifically required by this Disclosure Agreement, the District shall have no obligation under this Continuing Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the District or Dissemination Agent to comply with any provision of this Disclosure Agreement any Holder or Beneficial Owner of the Certificates may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District or the Dissemination Agent to comply with its obligations hereunder. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Trust Agreement or the Installment Purchase Contract, and the sole remedy under this Disclosure Agreement in the event of any failure of the District or Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. Article VII of the Trust Agreement is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Trust Agreement. The Dissemination Agent shall be entitled to the protections and limitations from liability afforded to the Trustee thereunder. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the District agrees to indemnify and save the Dissemination Agent, the Trustee and their officers, directors, employees, attorneys, agents and receivers, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's or the Trustee's respective negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Certificates.

The Dissemination Agent may conclusively rely upon the Annual Report provided to it by the District as constituting the Annual Report required of the District in accordance with this Disclosure Agreement and shall have no duty or obligation to review such Annual Report. The Dissemination Agent shall have no duty to prepare the Annual Report nor shall the Dissemination Agent be responsible for filing any Annual Report not provided to it by the District in a timely manner in a form suitable for filing with the Repositories. In accepting the appointment under this Agreement, the Dissemination Agent is not acting in a fiduciary capacity to the Holders or Beneficial Owners of the Certificates, the District, the Participating Underwriter or any other party or person. No provision of this Disclosure Agreement shall require the Dissemination Agent to risk or advance or expend its own funds or incur any financial liability, or compel the District to adhere to the requirements herein. The Dissemination Agent shall be entitled to compensation for its services as Dissemination Agent and reimbursement for its out-of-pocket expenses, attorney's fees, costs and advances made or incurred in the performance of its duties under the Certificates and this Agreement in accordance with its written fee schedule provided to the District, as such fee schedule may be amended from time to time in writing.

Section 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the District, the Dissemination Agent (if such Dissemination Agent is not the District), the Participating Underwriter and holders and beneficial owners, from time to time, of the Certificates, and shall create no rights in any other person or entity.

Section 13. Notice to BAM. Any notices or information required to be provided under this Disclosure Agreement shall also be provided to BAM.

Section 14. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

**SAN LORENZO VALLEY WATER DISTRICT**

By: \_\_\_\_\_  
General Manager

**[ZIONS BANCORPORATION, NATIONAL ASSOCIATION]**, as Trustee and Dissemination Agent

By: \_\_\_\_\_  
Authorized Officer

**Attachment 6**

**EXHIBIT A**

**NOTICE OF MUNICIPAL SECURITIES RULEMAKING BOARD  
OF FAILURE TO FILE ANNUAL REPORT**

Name of Obligor: San Lorenzo Valley Water District

Name of Issue: San Lorenzo Valley Water District Revenue Certificates of Participation,  
Series 2019

Date of Issuance: July \_\_, 2019

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Certificates as required by the Continuing Disclosure Agreement. The District anticipates that the Annual Report will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_

**[ZIONS BANCORPORATION, NATIONAL  
ASSOCIATION]**, as Dissemination Agent

By: \_\_\_\_\_  
Authorized Officer

cc: District and Corporation

**Attachment 7**

---

**ASSIGNMENT AGREEMENT**

**between the**

**MUNICIPAL FINANCE CORPORATION**

**and**

**ZIONS BANCORPORATION, NATIONAL ASSOCIATION  
as Trustee**

**Dated as of July 1, 2019**

**RE: SAN LORENZO VALLEY WATER DISTRICT**

---

## ASSIGNMENT AGREEMENT

This Assignment Agreement, dated as of July 1, 2019 (hereinafter, the “Assignment Agreement”), by and between the Municipal Finance Corporation (herein called “Corporation”), a non-profit public benefit corporation duly organized and validly existing under the laws of the State of California and Zions Bancorporation, National Association, a national banking association, solely in its capacity as Trustee (herein called the “Trustee”);

### WITNESSETH:

In the joint and mutual exercise of their powers, in consideration of the mutual covenants herein contained, and for other valuable consideration, the parties hereto recite and agree as follows:

#### **Section 1. Recitals.**

(a) The Corporation and the San Lorenzo Valley Water District (the “District”) have entered into an Installment Purchase Contract by and between the Corporation and the District, dated as of July 1, 2019 (the “Installment Purchase Contract”), whereby the Corporation has agreed to receive Installment Payments (as defined in the Installment Purchase Contract) from the District, and the District has agreed to make Installment Payments to the Corporation to finance and refinance public capital improvements, including certain water storage and transmission facilities the District has or intends to acquire (the “Project”), which Project is more particularly defined in the Installment Purchase Contract, in the manner and on the terms set forth in the Installment Purchase Contract.

(b) Upon execution and delivery of the Installment Purchase Contract, the Corporation is required to deposit or cause to be deposited with the Trustee and the District certain sums of money to be credited, held and applied in accordance with a Trust Agreement among the Trustee, the Corporation and the District dated as of July 1, 2019 (the “Trust Agreement”).

(c) Upon delivery of the Installment Purchase Contract and the deposit of moneys by the Corporation with respect thereto, the District is obligated to pay certain Installment Payments to the Corporation. For the purpose of obtaining the moneys required to be deposited with the Trustee, the Corporation is willing to assign and transfer its rights and interests under the Installment Purchase Contract to the Trustee for the benefit of the Owners of the Certificates (as defined in the Trust Agreement) to be executed and delivered under the Trust Agreement, and in consideration of such assignment, the Trustee is executing and delivering such Certificates to the purchasers thereof, the proceeds of which sale are anticipated to be sufficient to provide the moneys required to be deposited by the Corporation pursuant to the Installment Purchase Contract.

(d) Each of the parties has authority to enter into this Assignment Agreement, and has taken all actions necessary to authorize its officers to enter into it.

(e) The terms capitalized in this Assignment Agreement but not defined herein shall have the meanings given to them in the Installment Purchase Contract and the Trust Agreement.

**Section 2. Assignment.**

The Corporation, for good and valuable consideration received, does hereby irrevocably and absolutely sell, assign and transfer to the Trustee, for the benefit of the Owners of the Certificates executed and delivered under the Trust Agreement, all of its rights, title, benefit and interest in the Installment Purchase Contract (except for the Corporation's rights to indemnification and payment or reimbursement of its reasonable costs and expenses), including, without limitation, its rights to receive Installment Payments and interest thereon from the District under the Installment Purchase Contract, and the right to exercise such rights and remedies as are conferred on the Corporation by the Installment Purchase Contract as may be necessary or convenient to enforce payment of such Installment Payments and interest thereon when due or otherwise to protect its interests in the event of a default by the District. The Installment Payments and interest thereon shall be applied, and the rights so assigned shall be exercised, by the Trustee as provided in the Trust Agreement.

**Section 3. Acceptance.**

The Trustee hereby accepts such assignment in trust for the purpose of securing such payments and rights to the Owners of the Certificates delivered pursuant to the Trust Agreement, and subject to the provisions of the Trust Agreement.

**Section 4. Conditions.**

This Assignment Agreement shall confer no rights and impose no duties upon the Trustee beyond those expressly provided in the Trust Agreement.

**Section 5. No Additional Rights or Duties.**

This Assignment Agreement shall not confer any rights nor impose any duties, obligations or responsibilities upon the Trustee beyond those expressly provided in the Trust Agreement. This Assignment Agreement shall not impose any duties, obligations or responsibilities upon the Corporation or the District beyond those expressly provided in the Installment Purchase Contract and the Trust Agreement or as otherwise set forth herein.

**Section 6. Consent of Corporation to Sale of Certificates.**

The Corporation does hereby authorize, direct and consent to the execution and delivery of the Certificates by the Trustee, the receipt of payment by the Trustee for the Certificates when the same shall be sold to the original purchaser or purchasers thereof and the transfer and deposit of such proceeds by the Trustee into the funds and accounts created by the Trust Agreement, all in accordance with the terms of the Trust Agreement.

**Section 7. Further Assurances.**

The Corporation will make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of this Assignment Agreement, and for the better assuring and confirming to the owners of the Certificates the rights and benefits intended to be conveyed pursuant hereto.

**Section 8. Execution in Counterparts.**

This Assignment Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same agreement.

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

**MUNICIPAL FINANCE CORPORATION**

By: \_\_\_\_\_  
Administrator

**ZIONS BANCORPORATION, NATIONAL ASSOCIATION, as Trustee**

By: \_\_\_\_\_  
Authorized Signatory

**Attachment 8**

**NEW ISSUE - FULL BOOK ENTRY ONLY**

**INSURED RATING: "AA"  
(See "RATING" herein)**

In the opinion of Nossaman LLP, San Francisco, California, Special Counsel, based on existing statutes, regulations, rulings and court decisions and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, the portion of each Installment Payment designated as and representing interest and received by the Owners of the Certificates (the "Interest Portion") is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes. [In the opinion of Special Counsel, for tax years beginning prior to \_\_\_\_\_ the Interest Portion is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Special Counsel observes that it is included in adjusted current earnings in calculating corporate alternative minimum taxable income.] Special Counsel expresses no opinion regarding the federal or State tax consequences relating to the ownership or disposition of, or the accrual or receipt of the Interest Portion of, the Certificates. See "TAX MATTERS" herein with respect to tax consequences of the Certificates.

\$ \_\_\_\_\_  
**REVENUE CERTIFICATES OF PARTICIPATION  
SERIES 2019**

**Evidencing Proportionate Undivided Interests in  
Installment Payments to be Made by the  
SAN LORENZO VALLEY WATER DISTRICT**

Dated: Date of Delivery

Due: September 1, as shown on the inside cover

The above-captioned certificates of participation (the "Certificates") will be executed and delivered by the San Lorenzo Valley Water District (the "District") pursuant to the provisions of a Trust Agreement, dated as of July 1, 2019 (the "Trust Agreement"), among the District, the Municipal Finance Corporation, a California non-profit corporation (the "Corporation") and Zions Bancorporation, National Association (the "Trustee"). The Certificates will be delivered as fully registered certificates in book-entry form only, initially registered in the name of Cede & Co., New York, New York, as nominee of The Depository Trust Company ("DTC"), New York, New York. Purchasers will not receive certificates representing their interest in the Certificates. Individual purchases of the Certificates will be in principal amounts of \$5,000 or in any integral multiples of \$5,000. Interest payable with respect to the Certificates will be payable on March 1 and September 1 of each year, commencing September 1, 2019 (the "Interest Payment Dates"), and principal payable with respect to the Certificates will be paid on the dates set forth in the Maturity Schedule set forth on the inside cover hereof. Payments of principal of and interest with respect to the Certificates will be paid by the Trustee to DTC for subsequent disbursement to DTC Participants who will remit such payments to the beneficial Owners of the Certificates.

The Certificates are being executed and delivered to (i) to finance the acquisition and construction of certain water storage and transmission facilities by the District (see "THE FINANCING PLAN" herein); (ii) purchase a municipal bond debt service reserve insurance policy for the Certificates, and (iii) to pay certain costs of executing and delivering the Certificates (see "ESTIMATED SOURCES AND USES OF FUNDS" herein). The Certificates evidence undivided proportionate interests in certain Installment Payments (the "Installment Payments") to be made



by the District pursuant to an Installment Purchase Contract, dated as of July 1, 2019 (the "Installment Purchase Contract"), between the District and the Corporation.

The Installment Payments are a special limited obligation of the District, payable from and secured by a pledge of and first lien on all Net Revenues (as defined herein) of the District's water and wastewater system (the "Enterprise"), subject only to the parity liens of certain Parity Obligations outstanding on the date hereof, as such are defined and described herein. The Corporation, for the benefit of the Owners of the Certificates, has assigned, among other things, its right to receive Installment Payments to the Trustee.

The Certificates are subject to optional prepayment prior to their scheduled payment dates as described herein. See "THE CERTIFICATES" herein.

The scheduled payment of principal of and interest on the Certificates when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Certificates by **BUILD AMERICA MUTUAL ASSURANCE COMPANY**. See "CERTIFICATE INSURANCE" and APPENDIX \_\_\_ - "SPECIMEN MUNICIPAL CERTIFICATE INSURANCE POLICY" herein.



THE OBLIGATION OF THE DISTRICT TO MAKE INSTALLMENT PAYMENTS IS A SPECIAL OBLIGATION OF THE DISTRICT, PAYABLE SOLELY FROM AND SECURED BY NET REVENUES AND OTHER FUNDS PROVIDED FOR IN THE TRUST AGREEMENT. NONE OF THE STATE OF CALIFORNIA (THE "STATE"), NOR ANY OF ITS POLITICAL SUBDIVISIONS SHALL BE DIRECTLY, INDIRECTLY, OR CONTINGENTLY OBLIGATED TO USE ANY OTHER MONEYS OR ASSETS TO PAY ALL OR ANY PORTION OF INSTALLMENT PAYMENTS, TO LEVY OR TO PLEDGE ANY FORM OF TAXATION WHATSOEVER THEREFOR OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT. THE CERTIFICATES ARE NOT SECURED BY A LIEN ON THE PHYSICAL ASSETS OF THE DISTRICT. THE CERTIFICATES ARE NOT A PLEDGE OF THE FULL FAITH AND CREDIT OF THE DISTRICT, THE STATE OR ANY OF ITS POLITICAL SUBDIVISIONS NOR DO THEY CONSTITUTE INDEBTEDNESS IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION. NO PERSON EXECUTING THE CERTIFICATES IS SUBJECT TO ANY PERSONAL LIABILITY OR ACCOUNTABILITY BY REASON OF THEIR EXECUTION AND DELIVERY.

This cover page contains information for general reference only. It is not a summary of the security or terms of this issue. Investors are advised to read the entire Limited Offering Memorandum, including the section entitled "RISK FACTORS," for a discussion of special factors which should be considered, in addition to the other matters set forth herein, in considering the investment quality of the Certificates. Capitalized terms used but not defined on the front cover of this Limited Offering Memorandum shall have the meanings set forth herein.

---

**MATURITY SCHEDULE  
(See Inside Front Cover)**

---

The Certificates are offered when, as and if sold, executed and delivered, subject to the approval as to their legality by Nossaman LLP, San Francisco, California, as Special Counsel.

Certain legal matters will be passed upon for the District by the District's general counsel, Nossaman LLP, Los Angeles, California, and by Nossaman LLP, San Francisco, California, as Disclosure Counsel. It is anticipated that the Certificates in book-entry form, will be available for delivery through the facilities of DTC on or about July \_\_, 2019.

**MUNICIPAL CAPITAL MARKETS GROUP, INC.**

Dated: July \_\_, 2019

## MATURITY SCHEDULE

Base CUSIP®: \_\_\_\_\_

\$\_\_\_\_\_ Serial Certificates

<u>Maturity Date (September 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP®</u>
2020	\$	%	%	%	
2021					
2022					
2023					
2024					
2025					
2026					
2027					
2028					
2029					
2030					
2031					
2032					
2033					
2034					
2035					
2036					
2037					
2038					

\$\_\_\_\_\_ % Term Certificates Due September 1, 20\_\_\_, Yield: \_\_\_%\* (CUSIP®† : \_\_\_\_\_)

\$\_\_\_\_\_ % Term Certificates Due September 1, 20\_\_\_, Yield: \_\_\_%\* (CUSIP®† : \_\_\_\_\_)

\*Yield to par call on September 1, 20\_\_\_.

® CUSIP is a registered trademark of the American Bankers Association (<http://www.aba.com/>). CUSIP Global Services (CGS) is managed on behalf of the American Bankers Association by S&P Capital IQ. Copyright © 2018 CUSIP Global Services. All rights reserved. CUSIP data herein are provided for convenience of reference only. None of the District, the Underwriter or their counsel or agents takes any responsibility for the accuracy of the CUSIP data.

**SAN LORENZO VALLEY WATER DISTRICT**  
**Santa Cruz County, California**

**BOARD OF DIRECTORS<sup>(1)</sup>**

Lois Henry, President  
Bob Fultz, Vice President  
Lew Farris, Director  
Steve Swan, Director

**DISTRICT MANAGEMENT**

Rick Rogers, District Manager  
Stephanie Hill, Director of Finance  
James Furtado, Director of Operations

**SPECIAL SERVICES**

**Special and Disclosure Counsel**  
Nossaman LLP  
San Francisco, California

**District Counsel**  
Nossaman LLP  
Los Angeles, California

**Trustee**  
Zions Bancorporation, National Association  
\_\_\_\_\_, California

---

(1) As of the date hereof, one seat on the Board of Directors is vacant.

No dealer, broker, salesperson or other person has been authorized by the District or the Underwriter to give any information or to make any representations other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the District or the Underwriter. This Limited Offering Memorandum does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Certificates by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

The execution and delivery of the Certificates have not been registered under the Securities Act of 1933 or the Securities Exchange Act of 1934, both as amended, in reliance upon exemptions provided thereunder by Sections 3(a)2 and 3(a)12, respectively, for the execution and delivery of such municipal securities. This Limited Offering Memorandum does not constitute an offer to sell or a solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

The information set forth herein includes information obtained from sources which are believed to be reliable. The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Limited Offering Memorandum nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District since the date hereof. See "INTRODUCTION – Forward-Looking Statements" herein. This Limited Offering Memorandum is submitted with respect to the sale of the Certificates referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the District. All summaries of the Trust Agreement and other documents are made subject to the provisions of such documents, respectively, and do not purport to be complete statements of any or all of such provisions.

The Underwriter has provided the following sentence for inclusion in this Limited Offering Memorandum: The Underwriter has reviewed the information in this Limited Offering Memorandum in accordance with, and as part of, its responsibilities to investors and under federal securities laws, as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THE OFFERING OF THE CERTIFICATES, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE CERTIFICATES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

This Limited Offering Memorandum, including any supplement or amendment hereto, is intended to be deposited with the Municipal Securities Rulemaking Board through the Electronic Municipal Market Access (EMMA) web site. The District also maintains a web site which may describe the Enterprise. However, the information presented therein is not part of this Limited Offering Memorandum and must not be relied upon in making an investment decision with respect to the Certificates.

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are

not part of, this Limited Offering Memorandum for purposes of, and as that term is defined in, SEC Rule 15c2-12.

The Insurer makes no representation regarding the Certificates or the advisability of investing in the Certificates. In addition, the Insurer has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Limited Offering Memorandum or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Insurer supplied by the Insurer and presented under the heading "CERTIFICATE INSURANCE" herein and "APPENDIX \_\_\_ - SPECIMEN MUNICIPAL CERTIFICATE INSURANCE POLICY" hereto.

## TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION .....	1
General .....	1
The District and the Corporation .....	1
The Certificates .....	1
Purpose .....	2
Security for the Certificates .....	2
Reserve Fund .....	3
Prepayment .....	3
Assignment .....	3
Risk Factors .....	3
Limited Obligations .....	4
Tax Matters .....	4
Execution and Delivery of the Certificates .....	5
Continuing Disclosure .....	5
Forward-Looking Statements .....	5
Professionals Involved in the Offering .....	5
Other Information .....	6
THE FINANCING PLAN .....	6
ESTIMATED SOURCES AND USES OF FUNDS .....	7
THE CERTIFICATES .....	8
General .....	8
Prepayment of the Certificates .....	9
Book-Entry System .....	11
Acceleration .....	11
SCHEDULE OF CERTIFICATE PAYMENTS .....	11
SECURITY FOR THE CERTIFICATES .....	13
General .....	13
Pledge of Net Revenues .....	13
Installment Payments .....	14
Limitations on Parity Obligations and Superior Obligations .....	15
Rate Covenant .....	18
Reserve Fund .....	18
Installment Payments to be Unconditional .....	19
Additional Covenants .....	20
CERTIFICATE INSURANCE .....	21
Certificate Insurance Policy .....	21
Build America Mutual Assurance Company .....	21
THE DISTRICT .....	24
General .....	24
Governance .....	24
Management and Employees .....	25

THE ENTERPRISE .....	25
Water Supply and Production .....	25
District Facilities and Capacity .....	27
Water Treatment .....	30
Capital Improvement Program .....	30
Active Enterprise Water Service Accounts .....	30
Largest Enterprise Water Service Customers .....	32
Enterprise Rates .....	32
Water Service Rates .....	33
Revenue Stabilization Rates .....	35
Wastewater Service Rates .....	36
Enterprise Connection Fees .....	37
Lompico County Water District Assessment District Revenues .....	38
Billing and Collection Procedures .....	39
Impact of Drought, 2012 through 2017 .....	39
DISTRCT FINANCIAL INFORMATION .....	40
Financial Statements .....	40
Enterprise Accounting .....	40
Enterprise Budgets and Budgetary Accounting .....	40
Revenues, Expenses and Changes in Net Position .....	41
Projected Revenues and Expenses .....	44
Enterprise Reserves .....	47
Insurance .....	47
Retirement Systems .....	47
RISK FACTORS .....	51
Enterprise Demand and Growth .....	51
Enterprise Expenses .....	51
[Concentration of Customers .....	52
Parity Obligations .....	52
Proposition 218 .....	52
Proposition 26 .....	54
Constitutional Limit on Appropriations .....	55
No Obligation to Tax .....	55
Drought .....	55
Geologic, Topographic and Climatic Conditions .....	56
Insurance .....	57
Impact of State Budget .....	57
Limited Recourse on Default .....	58
Limitations on Remedies Available; Bankruptcy .....	58
Early Prepayment of Premium Certificates .....	59
Loss of Tax Exemption; IRS Audit of Tax-Exempt Issues .....	59
Absence of Market for the Certificates .....	60
THE CORPORATION .....	60
TAX MATTERS .....	60
General .....	60
Tax Treatment of Original Issue Discount and Premium .....	61
Changes in Federal and State Tax Law .....	61
Form of Opinion .....	62
CONTINUING DISCLOSURE .....	62



LITIGATION.....	62
CONCLUDING INFORMATION.....	63
Underwriting.....	63
Ratings.....	63
Legal Opinions.....	64
Professional Fees.....	64
Miscellaneous.....	64
APPENDIX A -- SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.....	A-1
APPENDIX B -- AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR FISCAL YEAR 2018.....	B-1
APPENDIX C -- PROPOSED FORM OF FINAL OPINION.....	C-1
APPENDIX D -- FORM OF CONTINUING DISCLOSURE AGREEMENT.....	D-1
APPENDIX E -- BOOK ENTRY PROVISIONS.....	E-1
APPENDIX F -- SPECIMEN MUNICIPAL CERTIFICATE INSURANCE POLICY.....	F-1

\$ \_\_\_\_\_  
**REVENUE CERTIFICATES OF PARTICIPATION  
SERIES 2019**

**Evidencing Proportionate Undivided Interests in  
Installment Payments to be Made by the  
SAN LORENZO VALLEY WATER DISTRICT**

**INTRODUCTION**

**General**

The purpose of this Limited Offering Memorandum (which includes the cover page and the Appendices attached hereto) is to provide information concerning the execution and delivery of the above-captioned Revenue Certificates of Participation, Series 2019 (the "Certificates"), in the aggregate principal amount of \$\_\_\_\_\_, evidencing proportionate interests of the registered owners thereof in certain Installment Payments (described herein) to be made by the San Lorenzo Valley Water District (the "District") to the Municipal Finance Corporation (the "Corporation"). The Certificates will be executed and delivered pursuant to a resolution of the District's Board of Directors adopted on July \_\_, 2019 (the "Resolution").

**The District and the Corporation**

The District is located in north-central Santa Cruz County (the "County"), 50 miles southeast of the City of San Francisco, 300 miles north of the City of Los Angeles and 100 miles southwest of the City of Sacramento. The District was organized in 1941 pursuant to the Water Code of the State of California (Division 12, commencing with Section 30000 of the California Water Code) for the purposes of (i) providing, storing, and distributing water and (ii) collecting and treating certain wastewater and stormwater, all within its boundaries. The District's boundaries comprise approximately 60 square miles and 170 miles of pipeline. The District currently provides service to a population of approximately 19,783 residents via 7,913 residential, commercial, and institutional connections. The District relies on both surface water and groundwater resources, including nine currently active stream diversions and eight active groundwater wells. These sources are derived solely from rainfall within the San Lorenzo River watershed and one groundwater spring.

The District is governed by a five-member Board of Directors, elected at-large from within the District's service area. The District Manager administers the day-to-day operations of the District in accordance with policies and procedures established by the Board of Directors. The District employs a full-time staff of 34 employees. For other information concerning the District, see "THE DISTRICT" and "THE ENTERPRISE" herein. A copy of the audited financial statements of the District for the year ended June 30, 2018 is attached hereto as APPENDIX \_\_\_.

The Corporation is a nonprofit public benefit corporation created for the purpose of aiding special districts financing of capital improvement projects.

**The Certificates**

The Certificates are being executed and delivered pursuant to the provisions of a Trust Agreement, dated as of July 1, 2019 (the "Trust Agreement"), among the District, the Corporation

and Zions Bancorporation, National Association, as trustee (the "Trustee"). The Certificates evidence undivided proportionate interests in certain Installment Payments (the "Installment Payments") to be made by the District pursuant to an Installment Purchase Contract, dated as of July 1, 2019 (the "Installment Purchase Contract"), between the District and the Corporation.

### **Purpose**

The proceeds of the sale of the Certificates will be used (i) to finance the acquisition and construction of certain water storage and transmission facilities (together, the "Project") of the District's water and wastewater system (the "Enterprise"); (ii) purchase a municipal bond debt service reserve insurance policy for the Certificates, and (iii) to pay certain costs of executing and delivering the Certificates. See "THE FINANCING PLAN," "THE ENTERPRISE" and "ESTIMATED SOURCES AND USES OF FUNDS" herein.

### **Security for the Certificates**

The Certificates evidence undivided proportionate interests in the Installment Payments to be made by the District pursuant to the Installment Purchase Contract. The payment of Installment Payments is secured by a pledge of the Net Revenues (as defined herein) of the Enterprise. Under the Installment Purchase Contract, the District has irrevocably pledged all Net Revenues (as defined herein) to the payment of the Installment Payments, subject to the terms and conditions of the Installment Purchase Contract. See "SECURITY FOR THE CERTIFICATES" herein.

The lien of the Installment Payments on Net Revenues is on parity with the lien of the District's obligations with respect to its (i) loan contract, No. E51065, dated April 6, 1995 as amended by Amendment A-1 dated May 25, 1995, Amendment A-2 dated October 24, 1995, Amendment A-3 dated April 25, 1997, and Amendment A-4 dated January 31, 2002, by and between the State of California Department of Water Resources and the California-American Water Company and issued under the California Safe Drinking Water Bond Law of 1988, as such loan contract was assigned to the District pursuant to an Agreement for Assignment of Loan dated as of September 19, 2008, by and between the California-American Water Company and the District, all as such loan contract was originally executed and as it may from time to time be amended or supplemented (the "2008 Assigned Felton Loan Contract") of which \$1,353,087 remains outstanding, (ii) 2012 Water Revenue Refunding Bonds (Bank Qualified) issued pursuant to that Refunding Bond Agreement, dated as of March 1, 2012, by and between the District and the Bank of Nevada, as such agreement was originally executed and as it may from time to time be amended or supplemented (the "2012 Water Revenue Refunding Bonds") of which \$1,185,808 remains outstanding, (iii) Government Obligation Contract dated as of November 15, 2016, by and between the District and NBH Bank, as such contract was originally executed and as it may from time to time be amended or supplemented (the "2016 Solar Government Obligation Contract") of which \$252,811 remains outstanding, and (iv) Installment Purchase Contract dated as of December 1, 2018, by and between the District and Capital One Public Funding, LLC, as such agreement was originally executed and as it may from time to time be amended or supplemented (the "2018 Installment Purchase Contract") of which \$2,000,000 remains outstanding. The 2018 Installment Purchase Contract, together with the 2008 Assigned Felton Loan Contract, the 2012 Water Revenue Refunding Bonds, and the 2016 Solar Government Obligation Contract, constitutes the existing "Existing Parity Obligations" as of the date hereof. The Installment Purchase Contract provides that the District may incur additional Parity Obligations payable on a parity basis with the Installment Payments only upon the satisfaction of certain conditions as described therein (see "SECURITY FOR THE CERTIFICATES – Limitations

on Parity Obligations and Superior Obligations” herein). See “SECURITY FOR THE CERTIFICATES” herein. The Installment Payments are calculated to be in an amount sufficient to pay all scheduled principal of and interest with respect to the Certificates when due. See “SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS” herein.

Pursuant to the Installment Purchase Contract, the District has covenanted to fix, prescribe rates and charges for the Enterprise which are reasonably expected to be at least sufficient to yield during each Fiscal Year Net Revenues equal to 125% of the aggregate amount of the Installment Payments, and principal of and interest on any Parity Obligations for such Fiscal Year. See “SECURITY FOR THE CERTIFICATES - Rate Covenant” herein.

Concurrently with the execution and delivery of the Certificates, Build America Mutual Assurance Company (“BAM”) will issue its municipal bond insurance policy for the Certificates (the “Insurance Policy”). The Insurance Policy guarantees the scheduled payment of principal of and interest on the Certificates when due as set forth in the form of the Insurance Policy included as APPENDIX \_\_ this Limited Offering Memorandum. See “SECURITY FOR THE CERTIFICATES – Certificate Insurance” and “CERTIFICATE INSURANCE” herein and “APPENDIX \_\_ - SPECIMEN MUNICIPAL BOND INSURANCE POLICY” hereto.

### **Reserve Fund**

The Insurer has also made a commitment to issue a municipal bond debt service reserve insurance policy (the “Reserve Policy”), effective as of the date of delivery of the Certificates, for deposit in the reserve fund established pursuant to the Trust Agreement for the Certificates (the “Reserve Fund”) which will satisfy the Reserve Requirement. The Reserve Fund will be held by the Trustee on behalf of the District. See “SECURITY FOR THE CERTIFICATES - Reserve Fund” herein.

### **Prepayment**

The Certificates are subject to optional and mandatory prepayment as described herein.

### **Assignment**

Pursuant to an Assignment Agreement, dated as of July 1, 2019 (the “Assignment Agreement”) between the Corporation and the Trustee, the Corporation has assigned to the Trustee for the benefit of the Owners of the Certificates (i) its right to receive Installment Payments from the District under the Installment Purchase Contract, (ii) its rights under the Installment Purchase Contract, and (iii) without any further act on the part of the Corporation, any and all of the other rights of the Corporation under the Installment Purchase Contract as may be necessary to enforce payments of Installment Payments when due and otherwise to protect the interests of the Owners.

### **Risk Factors**

Payment of Installment Payments depends primarily upon the generation and collection of Net Revenues. There can be no assurance that the demand for the services provided by the Enterprise will be maintained at levels described in this Limited Offering Memorandum, or that the expenses for operating and maintaining the Enterprise will be consistent with the levels described in this Limited Offering Memorandum. Changes in technology, decreased demand, new regulatory requirements, increases in the cost of energy or other expenses would reduce Net

Revenues, and could require the District to implement increases in Enterprise rates or charges in order to comply with the rate covenant. Such rate increases could increase the likelihood of nonpayment by Enterprise customers, and could also cause further decreases in customer demand.

If the District defaults on its obligation to make Installment Payments, the Trustee has the right to accelerate the total unpaid principal amount of the Installment Payments and the Certificates. However, in the event of a default and such acceleration there can be no assurance that the District will have sufficient Net Revenues to pay the accelerated payments.

See "RISK FACTORS" herein for a discussion of special factors which should be considered, in addition to the other matters set forth herein, in considering the investment quality of the Certificates, including a discussion of the impact of Proposition 218, Constitutional limits on fees and charges, seismic considerations, limitation on remedies, treatment of the Certificates pursuant to a case under chapter 9 of the United States Bankruptcy Code ("Chapter 9" of the "Bankruptcy Code") and changes in law.

### **Limited Obligations**

THE OBLIGATION OF THE DISTRICT TO MAKE INSTALLMENT PAYMENTS IS A SPECIAL OBLIGATION OF THE DISTRICT, PAYABLE SOLELY FROM AND SECURED BY NET REVENUES AND OTHER FUNDS PROVIDED FOR IN THE TRUST AGREEMENT. NONE OF THE STATE OF CALIFORNIA (THE "STATE"), NOR ANY OF ITS POLITICAL SUBDIVISIONS SHALL BE DIRECTLY, INDIRECTLY, OR CONTINGENTLY OBLIGATED TO USE ANY OTHER MONEYS OR ASSETS TO PAY ALL OR ANY PORTION OF INSTALLMENT PAYMENTS, TO LEVY OR TO PLEDGE ANY FORM OF TAXATION WHATSOEVER THEREFOR OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT. THE CERTIFICATES ARE NOT SECURED BY A LIEN ON THE PHYSICAL ASSETS OF THE DISTRICT. THE CERTIFICATES ARE NOT A PLEDGE OF THE FULL FAITH AND CREDIT OF THE DISTRICT, THE STATE OR ANY OF ITS POLITICAL SUBDIVISIONS NOR DO THEY CONSTITUTE INDEBTEDNESS IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION. NO PERSON EXECUTING THE CERTIFICATES IS SUBJECT TO ANY PERSONAL LIABILITY OR ACCOUNTABILITY BY REASON OF THEIR EXECUTION AND DELIVERY.

### **Tax Matters**

In the opinion of Nossaman LLP, San Francisco, California, Special Counsel, based on existing statutes, regulations, rulings and court decisions and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, the portion of each Installment Payment designated as and representing interest and received by the Owners of the Certificates (the "Interest Portion") is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes. [In the opinion of Special Counsel, for tax years beginning prior to September 1, 2019 the Interest Portion is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Special Counsel observes that it is included in adjusted current earning in calculating corporate alternative minimum taxable income.] Special Counsel expresses no opinion regarding the federal or State tax consequences relating to the ownership or disposition of, or the accrual or receipt of the Interest Portion of, the Certificates. See "TAX MATTERS" herein.

## **Execution and Delivery of the Certificates**

The Certificates are offered when, as and if executed and delivered, subject to approval as to their legality by Special Counsel. It is anticipated that the Certificates in book-entry form will be available for delivery through the facilities of DTC on or about July \_\_, 2019.

## **Continuing Disclosure**

The District will covenant for the benefit of the Owners (for all purposes herein, as such are defined in the Trust Agreement) and beneficial Owners of the Certificates to make available certain financial information and operating data relating to the Enterprise and to provide notices of the occurrence of certain enumerated events, in order to assist the Underwriter in complying with S.E.C. Rule 15c2 12(b)(5) (the "Rule"). See "CONTINUING DISCLOSURE" herein for additional information regarding the District's continuing disclosure obligations and prior compliance therewith. The specific nature of the information to be made available and the notices of listed events required to be provided are described in "APPENDIX \_\_ - FORM OF CONTINUING DISCLOSURE AGREEMENT" herein.

## **Forward-Looking Statements**

Certain statements included or incorporated by reference in this Limited Offering Memorandum (including the appendices hereto), including but not limited to (i) statements containing projections of Net Revenues and other financial items, (ii) statements of future economic performance of the Enterprise, and (iii) statements of the assumptions underlying or relating to statements described in (i) and (ii) above, constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "project," "budget," "intend," or other similar words. Such forward-looking statements include, but are not limited to, certain statements contained in the information regarding the Enterprise herein.

ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE DISTRICT DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THE FORWARD-LOOKING STATEMENTS SET FORTH IN THIS LIMITED OFFERING MEMORANDUM.

## **Professionals Involved in the Offering**

Nossaman LLP, San Francisco, California, is acting as Special Counsel with respect to the Certificates. Certain legal matters will be passed upon for the District by the District's general counsel, Nossaman LLP, Los Angeles, California, and by Nossaman LLP, San Francisco, California, as Disclosure Counsel. Such law firm will receive compensation contingent upon the execution and delivery of the Certificates.

## **Other Information**

This Limited Offering Memorandum is not to be construed as a contract or agreement between the District and/or the purchasers or Owners of any of the Certificates. Any statements made in this Limited Offering Memorandum involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized. Quotations from and summaries and explanations of the California Government Code and the California Water Code, other applicable legislation, the Trust Agreement, proceedings of the District with respect to the operations of the Enterprise and with respect to the Certificates, agreements and other documents referenced herein, do not purport to be complete, and reference is made to said documents, constitutional provisions and statutes for full and complete statements of their provisions. Prospective purchasers of the Certificates are advised to refer to such documents, provisions, and reports for full and complete statements of their contents. References herein to the Certificates are qualified in their entirety by reference to the form thereof included in the Trust Agreement. Copies of the proceedings of the District referred to above, the Trust Agreement and other documents described in this Limited Offering Memorandum are available for inspection at the offices of the District at: 13060 Highway 9, Boulder Creek, California 95006, Attention: Director of Finance. The District may impose a charge for copying, mailing and handling.

Certain of the information set forth herein, other than that provided by the District, has been obtained from official sources which are believed to be reliable but it is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the District. The information and expressions of opinions herein are subject to change without notice and neither delivery of this Limited Offering Memorandum nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Enterprise or the District since the date hereof.

The capitalization of any word not conventionally capitalized, or otherwise defined herein, indicates that such word is defined in a particular agreement or other document and, as used herein, has the meaning given it in such agreement or document. See APPENDIX A hereto for the definitions of certain terms used herein and for a summary of certain provisions of the Trust Agreement and the Installment Purchase Contract.

## **THE FINANCING PLAN**

The District is delivering the Certificates, in part, to provide funds to finance public capital improvements, including certain water storage and transmission facilities the District has or intends to acquire. The District intends to improve or replace approximately nine water storage tanks, to repair or replace four main water pipelines and certain other pipeline sections, and to acquire mobile and fixed power generators, amongst other projects. Certain improvements shall be located within Assessment District No. 2016-1, which was formed to finance the upgrade and repair of existing facilities within such assessment district related to the merging of Lompico County Water District with the District. The Project will allow the District to achieve its overall water management objectives of providing a sustainable, cost-effective and reliable water supply for the water users in the District. The total cost of the Project is currently estimated to be approximately \$12,000,000. Amounts not funded from proceeds of the Certificates are expected to be funded from the other available resources of the District.

The remaining net proceeds of the Certificates will be used (i) purchase a municipal bond debt service reserve insurance policy for the Certificates and (ii) to pay certain costs of executing and delivering the Certificates. See “ESTIMATED SOURCES AND USES OF FUNDS” below.

**ESTIMATED SOURCES AND USES OF FUNDS**

The proceeds to be received from the execution and delivery of the Certificates are anticipated to be applied as follows:

**SOURCES:**

Principal Amount of the Certificates	\$
Net Original Issue Premium	
	\$
<b>TOTAL SOURCES:</b>	<b>\$</b>

**USES:**

Acquisition Fund <sup>(1)</sup>	\$
Costs of Issuance <sup>(2)</sup>	
	\$
<b>TOTAL USES:</b>	<b>\$</b>

(1) See “THE FINANCING PLAN” above.

(2) Reflects all costs of issuance, including the Underwriter’s discount and the printing costs, fees of Special Counsel, Disclosure Counsel, and District general counsel, the costs and fees of the Trustee and Corporation, premiums for the Insurance Policy and Reserve Policy, and other costs of executing and delivering the Certificates.



## THE CERTIFICATES

### General

The Certificates are being delivered in the form of fully registered Certificates, without coupons, in denominations of \$5,000 or any integral multiple thereof, and shall be dated the date of delivery to the initial purchaser thereof. The Certificates, when executed and delivered, will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York (“DTC”). So long as DTC, or Cede & Co. as its nominee, is the registered owner of all Certificates, all payments with respect to the Certificates will be made directly to DTC, and disbursement of such payments to the DTC Participants (defined below) will be the responsibility of DTC, and disbursement of such payments to the beneficial Owners will be the responsibility of the DTC Participants, as more fully described hereinafter. See “Book-Entry System” below.

Interest evidenced by the Certificates shall be payable on March 1 and September 1 of each year, commencing March 1, 2020 (each, an “Interest Payment Date”), and continuing to and including the date of maturity or prior prepayment, whichever is earlier. Principal evidenced by the Certificates shall be payable on September 1 in each of the years and in the amounts set forth on the inside cover page of this Limited Offering Memorandum. Principal and premium, if any, evidenced by the Certificates shall be payable to the Owner upon presentation and surrender of such Certificate at the corporate trust office of the Trustee in \_\_\_\_\_, California. Interest evidenced by the Certificates shall be calculated on the basis of a 360-day year consisting of twelve 30-day months and shall be payable by check mailed by first class mail on each Interest Payment Date to the Owners as of the close of business on the 15th day of the month (whether or not such day is a Business Day) preceding an Interest Payment Date (the “Record Date”) at their addresses shown on the registration books maintained by the Trustee; provided however, that upon the written request from any Owner of any Certificate in a denomination of, or Certificates aggregating, at least \$1,000,000 in principal amount, received on or prior to the first day of the month preceding an applicable Payment Date, payment may be made by wire in Federal Reserve Funds on the Payment Date with regard to which such payment is made.

The Certificates may be transferred or exchanged at the principal office of the Trustee, to the extent and upon the conditions set forth in the Trust Agreement. The Trustee may require the payment of a reasonable service charge by the owner of any Certificate requesting exchange, and the Trustee will require payment of a sum sufficient to cover any tax or other governmental charge required to be paid with respect thereto. The Trustee may refuse to transfer or exchange any Certificates during the period after the mailing of notice calling such Certificate or a portion thereof for prepayment, or during the fifteen days preceding the giving of such notice of prepayment.

If a Certificate is mutilated, lost, stolen or destroyed, the Trustee, at the expense of the owner of such Certificate, will authenticate, subject to the provisions of the Trust Agreement, a new Certificate of like tenor and amount. In the case of a lost, stolen or destroyed Certificate, the Trustee may require that an indemnity be furnished and payment of an appropriate fee for each new Certificate delivered in replacement of such Certificate and may require payment of the expenses of the District and the Trustee incurred in connection therewith.

**Prepayment of the Certificates**

**Optional Prepayment.** The Certificates shall not be subject to optional prepayment prior to September 1, 20\_\_\_. The Certificates are subject to prepayment, in whole or in part in any integral multiple of \$5,000, at the option of the District on any date on or after September 1, 20\_\_\_, from any available source of funds, at the prepayment price equal to the principal amount of the Certificates to be prepaid from the proceeds of such prepayment, plus accrued interest thereon to the date of prepayment, without premium.

**Extraordinary Prepayment from Net Proceeds of Insurance and Condemnation.** The Certificates are subject to extraordinary prepayment on any Interest Payment Date upon notice as hereinafter provided, as a whole or in part (on a pro-rata basis) in integral multiples of \$5,000, from prepaid Installment Payments made by the District from funds received by the District due to a casualty loss or governmental taking of the Enterprise or portions thereof by eminent domain proceedings, at a prepayment price equal to the sum of the principal amount evidenced thereby plus accrued interest accrued to the date fixed for prepayment of the Certificates, without premium.

**Mandatory Sinking Account Prepayment.** The Certificates maturing on September 1, 20\_\_\_ (the "20\_\_\_ Term Certificates") are also subject to mandatory sinking fund prepayment in whole, or in part by lot, on September 1 in each year commencing September 1, 20\_\_\_, from Installment Payments made by the District pursuant to the Installment Purchase Contract, at a prepayment price equal to the principal amount evidenced thereby to be prepaid, without premium, in the aggregate respective principal amounts and on September 1 in the respective years as set forth in the following table:

**20\_\_\_ Term Certificates**

<b><u>Prepayment Date (September 1)</u></b>	<b><u>Principal Amount</u></b>
20___	\$
20___	
20___	
20___	
20___ (maturity)	

The Certificates maturing on September 1, 20\_\_\_ (the "20\_\_\_ Term Certificates") are also subject to mandatory sinking fund prepayment in whole, or in part by lot, on September 1 in each year commencing September 1, 20\_\_\_, from Installment Payments made by the District pursuant to the Installment Purchase Contract, at a prepayment price equal to the principal amount evidenced thereby to be prepaid, without premium, in the aggregate respective principal amounts and on September 1 in the respective years as set forth in the following table:

**20\_\_ Term Certificates**

<b>Prepayment Date (September 1)</b>	<b>Principal Amount</b>
	\$
20__	
20__	
20__	
20__ (maturity)	

**Partial Prepayment of Term Certificates.** If some but not all of a Term Certificate has been prepaid pursuant to optional or extraordinary prepayment, the total amount of all future sinking fund payments relating to such Term Certificate shall be reduced by the aggregate principal amount of such Term Certificate so prepaid, to be allocated among such sinking fund payments on a pro rata basis as determined by the District.

**Selection of Certificates for Prepayment.** In the event that part, but not all, of the Certificates are to be prepaid, the Certificates to be prepaid shall be selected by the Trustee from maturities designated by the District in writing, and by lot within a maturity. For the purposes of such selection, Certificates shall be deemed to be composed of \$5,000 portions, and any such portion may be separately prepaid.

**Notice of Prepayment; Rescission.** When prepayment is authorized or required, the Trustee shall give notice of the prepayment of the Certificates on behalf and at the expense of the District at least 30 days but not more than 45 days prior to the prepayment date to the holders of the Certificates. Such notice shall be provided by (i) mail to the respective Owners of all Certificates selected for prepayment in whole or in part, and (ii) remittance of such notice of prepayment to DTC and the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access system (“EMMA”) or in accordance with then current guidelines of the Securities and Exchange Commission. Such notice shall state (a) the Certificates or designated portions thereof (in the case of prepayment of the Certificates in part but not in whole) which are to be prepaid, (b) the date of prepayment, (c) the place or places where the prepayment will be made, including the name and address of any paying agent, (d) the prepayment price, (e) the CUSIP numbers (if any) assigned to the Certificates to be prepaid, (f) the Certificate numbers of the Certificates to be prepaid in whole or in part and, in the case of any Certificate to be prepaid in part only, the amount of such Certificate to be prepaid, and (g) the original issue date, interest rate and stated maturity date of each Certificate to be prepaid in whole or in part. Such notice shall further state that on the specified date there shall become due and payable upon each Certificate, the principal and premium, if any, together with interest accrued to said date, and that from and after such date interest with respect thereto shall cease to accrue and be payable.

The District shall have the right to rescind any optional prepayment by written notice to the Trustee on or prior to the date fixed for prepayment. Any such notice of optional prepayment shall be canceled and annulled if for any reason funds will not be or are not available on the date fixed for prepayment for the payment in full of the Certificates then called for prepayment, and such cancellation shall not constitute an Event of Default under the Trust Agreement. The District, the Corporation and the Trustee shall have no liability to the Owners or any other party related to or arising from such rescission of prepayment. The Trustee shall mail notice of such rescission of prepayment in the same manner as the original notice of prepayment was sent.

***Effect of Notice of Prepayment.*** Moneys for the prepayment (including the interest to the applicable date of prepayment) of Certificates having been set aside in the Installment Payment Fund, the Certificates shall become due and payable on the date of such prepayment, and, upon presentation and surrender thereof at the Trust Office of the Trustee, said Certificates shall be paid at the unpaid principal amount (or applicable portion thereof) represented thereby plus any applicable premium and plus interest accrued and unpaid to said date of prepayment. If, on said date of prepayment, moneys for the prepayment of all the Certificates to be prepaid, together with interest represented thereby to said date of prepayment, shall be held by the Trustee so as to be available therefor on such date of prepayment, then, from and after said date of prepayment, interest represented by the Certificates shall cease to accrue and become payable.

### **Book-Entry System**

DTC will act as securities depository for the Certificates. The Certificates will be executed and delivered as fully-registered certificates registered in the name of Cede & Co., (DTC's partnership nominee). One fully-registered Certificate will be delivered for each maturity of the Certificates, each in the aggregate principal amount of such maturity, and will be deposited with DTC. See "APPENDIX \_\_\_ - BOOK ENTRY PROVISIONS" herein.

The District and the Trustee cannot and do not give any assurances that DTC, DTC Participants or others will distribute payments of principal, interest or premium, if any, with respect to the Certificates paid to DTC or its nominee as the registered owner, or will distribute any prepayment notices or other notices, to the beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Limited Offering Memorandum. The District and the Trustee are not responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a beneficial Owner with respect to the Certificates or an error or delay relating thereto.

### **Acceleration**

If an Event of Default (as such is defined in the Trust Agreement) shall occur, the Trustee may exercise any remedies available to the Trustee and the Owners in law or at equity. Upon the satisfaction of certain conditions set forth in the Trust Agreement, the Trustee may declare all Installment Payments calculated to be in an amount sufficient to pay all scheduled principal of and interest with respect to the Certificates then-Outstanding, to be due and payable immediately. Any suit requesting such accelerated payment of Installment Payments and/or money damages would be subject to limitations on legal remedies against public agencies in California, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest. See "APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" hereto under the caption "Events of Default and Events of Mandatory Acceleration; Acceleration of Maturities" for further information with respect to the acceleration of the Certificates and other remedies.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

### **SCHEDULE OF CERTIFICATE PAYMENTS**

The table below shows the annual payments of principal of and interest with respect to the Certificates (assuming no optional prepayments). The Installment Payments are due on the fifteenth day of the month prior to each Interest Payment Date. SEE "SECURITY FOR THE



## SECURITY FOR THE CERTIFICATES

### General

THE OBLIGATION OF THE DISTRICT TO MAKE INSTALLMENT PAYMENTS IS A SPECIAL OBLIGATION OF THE DISTRICT, PAYABLE SOLELY FROM AND SECURED BY NET REVENUES AND OTHER FUNDS PROVIDED FOR IN THE TRUST AGREEMENT. NONE OF THE STATE OF CALIFORNIA (THE "STATE"), NOR ANY OF ITS POLITICAL SUBDIVISIONS SHALL BE DIRECTLY, INDIRECTLY, OR CONTINGENTLY OBLIGATED TO USE ANY OTHER MONEYS OR ASSETS TO PAY ALL OR ANY PORTION OF INSTALLMENT PAYMENTS, TO LEVY OR TO PLEDGE ANY FORM OF TAXATION WHATSOEVER THEREFOR OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT. THE CERTIFICATES ARE NOT SECURED BY A LIEN ON THE PHYSICAL ASSETS OF THE DISTRICT. THE CERTIFICATES ARE NOT A PLEDGE OF THE FULL FAITH AND CREDIT OF THE DISTRICT, THE STATE OR ANY OF ITS POLITICAL SUBDIVISIONS NOR DO THEY CONSTITUTE INDEBTEDNESS IN CONTRAVENTION OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION. NO PERSON EXECUTING THE CERTIFICATES IS SUBJECT TO ANY PERSONAL LIABILITY OR ACCOUNTABILITY BY REASON OF THEIR EXECUTION AND DELIVERY.

### Pledge of Net Revenues

Each Certificate evidences an undivided proportionate interest in the Installment Payments to be made by the District under the Installment Purchase Contract. The Corporation, pursuant to the Assignment Agreement, has transferred, conveyed and assigned to the Trustee, for the benefit of the Owners, all of the Corporation's rights, title and interest under the Installment Purchase Contract, including the right to receive Installment Payments from the District and the right to exercise any remedies provided therein in the event of a default by the District thereunder.

All Net Revenues (defined below) are pledged to the payment of the Installment Payments and debt service payments with respect to the 2008 Assigned Felton Loan Contract, 2012 Water Revenue Refunding Bonds, 2016 Solar Government Obligation Contract, 2018 Installment Purchase Contract and other Parity Obligations as provided in the Installment Purchase Contract, and the Net Revenues shall not be used for any other purpose while any of the Installment Payments remain unpaid; provided, however, that out of the Net Revenues there may be apportioned such sums for such purposes as are expressly permitted by the Installment Purchase Contract, including payment of debt service on any Parity Obligations. This pledge constitutes a first lien on the Net Revenues for the payment of the Installment Payments, on parity with the lien securing debt service on any Parity Obligations in accordance with the Installment Purchase Contract. The Certificates are not secured by a direct lien on the Enterprise.

The "Enterprise" means the District's water and wastewater system, including all facilities, works, properties and structures of the District for the treatment, transmission and distribution of potable and non-potable water, including all contractual rights to water supplies, transmission capacity supply, and for the collection of and treatment of wastewater and/or stormwater, as well as including all easements, rights-of-way and other works, property or structures necessary or convenient for such facilities, together with all additions, betterments, extension and improvements to such facilities or any part thereof hereafter acquired or constructed. **The Enterprise is not security for the Certificates.**

“Net Revenues” means, for any Fiscal Year or other period, the Revenues, less Maintenance and Operation Costs of the Enterprise. “Revenues” means all gross income and revenue received or receivable by the District from the ownership and operation of the Enterprise, calculated in accordance with Generally Accepted Accounting Principles, including all rates, fees and charges received by the District for water and wastewater service (including fees for connecting to the Enterprise and any water stand-by or water availability charges or assessments) and including the District’s share of property taxes remitted to the District by the Santa Cruz County Treasurer’s Office, all as and when received by the District for the Enterprise and all other income and revenue howsoever derived by the District from the Enterprise or arising from the Enterprise; provided, however, that (i) any specific charges or assessments, including but not limited to the Lompico Assessments, levied for the express purpose of reimbursing others for all or a portion of the cost of the acquisition or construction of specific facilities, (ii) customers’ deposits or any other deposits subject to refund until such deposits have become the property of the District, (iii) grants which are designated by the grantor for a specific purpose and are therefore not available, are not Revenues and are not subject to the lien of the Trust Agreement, or (iv) net proceeds of eminent domain proceedings and casualty insurance maintained by the District with respect to the Enterprise to the extent such proceeds are not promptly applied by the District either to the repair or replacement of the Enterprise or to the prepayment of the Certificates are not Revenues and are not subject to the lien of the Installment Purchase Contract.

“Maintenance and Operation Costs” of the Enterprise means the reasonable and necessary costs spent or incurred by the District for maintaining and operating the Enterprise, calculated in accordance with Generally Accepted Accounting Principles, including all reasonable and necessary expenses of management and repair and other expenses necessary to maintain and preserve the Enterprise in good repair and working order, and including all reasonable and necessary administrative costs of the District attributable to the Enterprise and to the Trust Agreement, the Certificates, Parity Obligations and Contracts, such as salaries and wages of employees, overhead, insurance, taxes (if any), expenses, reasonable compensation and indemnification of fiscal agents, paying agents and trustees with respect to the foregoing and fees of auditors, accountants, attorneys or engineers, 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 and the Certificates, Parity Obligations and Contracts and all applicable federal, state and local requirements pertaining to the operation of the Enterprise, but excluding depreciation, replacement and obsolescence charges or reserves therefore and amortization of intangible or other bookkeeping entries of a similar nature.

In the Installment Purchase Contract, the District covenants that it will not make any pledge of or place any lien on Net Revenues senior to the pledge and lien for the payment of the Installment Payments and will not make any pledge of or place any lien on the Net Revenues on a parity with the pledge and lien for Installment Payments, or subordinate thereto, except as otherwise provided in the Installment Purchase Contract. In addition to the Existing Parity Obligations, the District has the right to issue or incur indebtedness or other obligations on parity with the Installment Payments (see “Limitations on Parity Obligations and Superior Obligations” below).

### **Installment Payments**

The Installment Purchase Contract requires the District make Installment Payments on each February 15 and August 15, commencing February 15, 2020, prior to a related Interest Payment Date (each a “Due Date”), and continuing thereafter during the term of the Certificates,

in amounts as specified in the Installment Purchase Contract (see "APPENDIX A" hereto). The Installment Payments shall be paid directly to the Trustee.

### **Limitations on Parity Obligations and Superior Obligations**

***Obligations Superior to Installment Payments.*** The District has covenanted in the Installment Purchase Contract that it will not enter into other Installment Purchase Contracts or issue any type of securities permitted by law and secured by revenues of the District having a priority on Net Revenues superior to that of the Certificates or the Installment Payments.

***Obligations on a Parity with the Installment Payments.*** The District has covenanted that the District shall not issue or incur any Parity Obligations while any Certificates are outstanding unless:

(1) No Event of Default shall have occurred and be continuing as of the date of issuance or incurrence thereof;

(2) Either (i) the Net Revenues, calculated in accordance with Generally Accepted Accounting Principles, as shown by the books of the District for the latest Fiscal Year for which audited financial information is available or as shown by the books of the District for any more recent 12-month period selected by the District in its sole discretion, in either case verified by a certificate or opinion of an Independent Certified Public Accountant, plus, at the option of the District, any or all of the items described in the following subsection (3), at least equal 125% of the amount of Maximum Annual Debt Service; or (ii) the average annual Net Revenues for the prior 36-month period, calculated in accordance with Generally Accepted Accounting Principles, as shown by the books of the District for the three prior Fiscal Years for which audited financial information is available or as shown by the books of the District for any more recent 36-month period selected by the District in its sole discretion, verified by a certificate or opinion of an Independent Certified Public Accountant, plus, at the option of the District, any or all of the items described in the following subsection (3), at least equal 125% of the amount of Maximum Annual Debt Service;

(3) At the option of the District, there may be added to the Net Revenues for purposes of meeting the requirements of the foregoing subsection (2) an allowance for Net Revenues arising from either of the following: (i) An allowance for Net Revenues from any improvements to the Enterprise to be made with the proceeds of such Parity Obligations and also for Net Revenues from any such improvements which have been made from moneys from any source but in any case which, during all or any part of the period described in the foregoing subsection (2), were not in service, all in an amount equal to 90% of the estimated additional average annual Net Revenues to be derived from such improvements for the first 36 month period in which each improvement is respectively to be in operation, all as shown by the certificate or opinion of an Independent Engineer or (ii) An allowance for Net Revenues arising from any increase in the charges made for service from the Enterprise which has been adopted prior to the incurring of such Parity Obligations but which, during all or any part of the period described in the foregoing subsection (2), was not in effect, in an amount equal to the total amount by which the Net Revenues would have been increased if such increase in charges had been in effect during the whole of such period, all as shown by the certificate or opinion of an Independent Certified Public Accountant.



The provisions of subsection (2) and (3) of this Section shall not apply to any Parity Obligations if (i) all of the proceeds of which (other than proceeds applied to pay costs of issuing such Parity Obligations) shall be deposited in an irrevocable escrow held in cash or invested in Federal Securities for the purpose of paying the principal of and interest and premium (if any) on any Outstanding Certificates or on any outstanding Parity Obligations, (ii) at the time of the incurring of such Parity Obligations, the District certifies in writing that Maximum Annual Debt Service on the refunding Parity Obligations will not exceed Maximum Annual Debt Service on the Outstanding Certificates or Parity Obligations being refunded, and (iii) the final maturity of the refunding Parity Obligations is not later than the final maturity of the refunded Certificates or Parity Obligations.

The District may at any time execute contracts or issue bonds or other indebtedness payable from Net Revenues or the Revenue Fund payable on a subordinated basis to the payment of the Installment Payments.

In order to maintain the parity relationship of the Installment Payments to all Parity Obligations permitted hereunder, the District covenants that all payments in the nature of principal and interest with respect to any Parity Obligations, except with respect to Governmental Loans, will be structured to occur semi-annually on the Due Dates and in each year as such payments are due with respect to the Installment Payments, and reserve account replenishment with respect to any Parity Obligations, except with respect to Governmental Loans, will be structured to occur monthly, and to otherwise structure the terms of such Parity Obligations to ensure that they are in all respects payable on a parity with the Installment Payments and not prior thereto; provided that the District shall not make a payment on such Governmental Loan to the extent it would have the effect of causing the District to fail to pay Installment Payments on a timely basis. In such event, the District shall make Installment Payments and payments on such Governmental Loan on a pro rata basis.

**Existing Parity Obligations.** The following table sets forth (i) the payments of principal and interest with respect to the Certificates (assuming no optional prepayment) and (ii) debt services payments for the 2008 Assigned Felton Loan Contract, 2012 Water Revenue Refunding Bonds, 2016 Solar Government Obligation Contract, and 2018 Installment Purchase Contract for each twelve-month period ending on September 1:



## Rate Covenant

The District has covenanted that the District shall fix, prescribe, revise and collect rates, fees and charges for the service and facilities furnished by the Enterprise during each Fiscal Year, which are at least sufficient, after making allowances for contingencies and error in the estimates, to yield Revenues sufficient to pay the following amounts in the following order of priority:

(a) The District will, at all times while any of the Certificates remain Outstanding, fix, prescribe and collect rates, fees and charges in connection with the Enterprise so as to yield Revenues at least sufficient, after making reasonable allowances for contingencies and errors in the estimates, to pay the following amounts in the order below set forth:

(1) All Maintenance and Operation Costs of the Enterprise;

(2) The Installment Payments and all payments (including payments of interest and under reimbursement agreements) with respect to related Parity Obligations issued or incurred as they become due and payable;

(3) Amounts necessary to bring the amount of funds in the Reserve Fund up to the Reserve Requirement within two year of a draw thereon; and

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

(b) Furthermore, the District shall fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Enterprise during each Fiscal Year which are sufficient to yield estimated Net Revenues which are at least equal 125% of the aggregate amount of the Installment Payments, and principal of and interest on any Parity Obligations issued or incurred before or after the date hereof payable from Net Revenues coming due and payable during such Fiscal Year. The District may make adjustments, from time to time, in its rates, fees and charges as it deems necessary, but shall not reduce its rates, fees and charges below those in effect unless the Net Revenues resulting from such reduced rates, fees and charges shall at all times be sufficient to meet the requirements set forth in this paragraph.

(c) If the District violates the covenants set forth above, such violation shall not, in and of itself, be a default under the Installment Purchase Contract and shall not give rise to a declaration of an Event of Default so long as the District has complied with subsections (a) and (b) above at the commencement of the succeeding Fiscal Year.

See "RISK FACTORS – Proposition 218" herein for a discussion of certain procedural matters and possible limitations relating to increases of the Districts rates and charges.

## Reserve Fund

Under the Trust Agreement, a Reserve Fund is established for the Certificates and will be held in trust by the Trustee. On the Closing Date, the Reserve Policy, with a Policy Limit of \$\_\_\_\_\_, will be deposited into the Reserve Fund, which shall satisfy the Reserve Requirement. The premium on the Reserve Policy will be fully paid at or prior to the issuance of the Certificates. The Reserve Policy will provide that the Insurer will make payment in an amount sufficient to pay

principal and interest on the Certificates then-due to the Trustee (or its successor) on the later of (i) the Business Day on which such principal and interest becomes due for payment and (ii) the first Business Day following the Business Day on which the Insurer shall have received a completed notice of nonpayment in a form reasonably satisfactory to it, provided, however, that aggregate payments made under the Reserve Policy shall not exceed the Policy Limit and provided, further, that the Policy Limit shall at all times equal the Reserve Requirement.

In the event that the Reserve Policy for any reason fully lapses or expires, the District shall obtain a replacement letter of credit, surety bond or insurance policy or incrementally cash-fund the Reserve Fund as described in the Trust Agreement. The District is not required to obtain a replacement letter of credit, surety bond or insurance policy or to incrementally cash-fund the Reserve Fund as the result of (i) the degradation of the rating of the Insurer or (ii) the transfer or assignment of the Insurer's obligations under the Reserve Policy to a third party, however the District may solely elect to cash-fund the Reserve Fund or it may, subject to the Insurer's prior written consent, obtain a replacement credit facility under such circumstances.

See "APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Summary of the Trust Agreement" hereto under the captions "Reserve Fund" and "Certificate Reserve Policy Provisions" for further information with respect to the Reserve Policy.

### **Installment Payments to be Unconditional**

The obligation of the District to make the Installment Payments and to perform and observe the other agreements contained in the Installment Purchase Contract shall be absolute and unconditional and shall not be subject to any defense or any right of set-off, counterclaim, or recoupment arising out of any breach of the District or the Trustee of any obligation to the District, or out of indebtedness or liability at any time owing to the District by the District or the Trustee.

Until such time as all of the Installment Payments shall have been fully paid, prepaid or secured, the District:

(a) will not suspend, discontinue or fail to make any Installment Payments, whether or not the Enterprise or any part thereof is operating or operable, or its use is suspended, interfered with, reduced or curtailed or terminated in whole or in part;

(b) will perform and observe all other agreements contained in the Installment Purchase Contract; and

(c) will not terminate the Installment Purchase Contract for any cause, including, without limiting the generality of the foregoing, the occurrence of any act or circumstance that may constitute failure of consideration, eviction or constructive eviction, destruction of or damage to the Enterprise, the taking by eminent domain of title to or temporary use of any or all of the Enterprise, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of California or any political subdivision of either, or any failure of the District or the Trustee to perform and observe any agreement, whether express or implied, or any duty, liability, or obligation arising out of or connected with the Trust Agreement or the Installment Purchase Contract.

Nothing shall be construed to release the District or the Trustee from the performance of any of the agreements on its part in the Installment Purchase Contract or in the Trust Agreement contained, and in the event the District or the Trustee shall fail to perform any such agreements

on its part, the Corporation may institute such action against the District or the Trustee as the Corporation may deem necessary to compel performance so long as such action does not abrogate the obligations of the District to pay the Installment Payments.]

### **Additional Covenants**

Additional covenants of the District contained in the Installment Purchase Contract include, but are not limited to, the following (see "APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - Installment Purchase Contract" hereto):

***Sale or Eminent Domain of Enterprise.*** The District will not sell, lease, encumber or otherwise dispose of the Enterprise or any part thereof in excess of one-half of one percent of the book value of the Enterprise in any Fiscal Year, unless a Treasurer certifies that such sale, lease, encumbrance or disposition will not materially adversely affect the operation of the Enterprise or the Net Revenues; provided however, any real or personal property which has become non-operative or which is not needed for the efficient and proper operation of the Enterprise, or any material or equipment which has become worn out, may be sold or exchanged at not less than the fair market value thereof and the proceeds (if any) of such sale or exchange shall be deposited in the Revenue Fund. The District will not enter into any agreement or lease which would impair the ability of the District to meet the covenant set forth in this paragraph or which would otherwise impair the rights of the Certificate Owners or the operation of the Enterprise.

Any amounts received as awards as result of the taking of all or any part of the Enterprise by the lawful exercise of eminent domain, if and to the extent that such right can be exercise against such property of the District, shall either (a) be used for the acquisition or construction of improvements to the Enterprise, or (b) be applied to pay or prepay the Installment Payments and any Parity Obligations.

***Insurance.*** The District will procure and maintain insurance on the Enterprise in such amounts, with such deductibles and against such risks (including accident to or destruction of the Enterprise) as are usually insurable in connection with similar enterprises. If any useful part of the Enterprise shall be damaged or destroyed, such part shall be restored to use. All amounts collected from insurance against accident to or destruction of any portion of the Enterprise shall be used to repair or rebuilt such damaged or destroyed portion of the Enterprise, and to the extent not so applied, shall be applied to pay or prepay the Installment Payments and any Parity Obligations.

The District shall also maintain worker's compensation insurance and insurance against public liability and property damage to the extent reasonably necessary to protect the District.

Any policy of insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the District, and may be maintained in whole or in part in the form of self-insurance by the District or in the form of the participation by the District in a joint powers agency or other program providing pooled insurance.

***Records and Accounts.*** The District shall keep proper books of records and accounts of the Enterprise in which complete and correct entries shall be made of all transactions relating to the Enterprise. Such books of record and accounts shall at all times during business hours be subject to the inspection of the Trustee, the Insurer or of the Owners of not less than ten percent (10%) of the principal amount of the Certificates then Outstanding or their representatives authorized in writing. The District shall cause the books and accounts of the Enterprise to be

audited annually by an Accountant not more than two hundred seventy (270) days after the close of each Fiscal Year.

## CERTIFICATE INSURANCE

### Certificate Insurance Policy

Concurrently with the execution and delivery of the Certificates, Build America Mutual Assurance Company ("BAM") will issue its Municipal Certificate Insurance Policy for the Certificates (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest with respect to the Certificates when due as set forth in the form of the Policy included as APPENDIX \_\_ to this Limited Offering Memorandum.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

### Build America Mutual Assurance Company

BAM is a New York domiciled mutual insurance corporation and is licensed to conduct financial guaranty insurance business in all fifty states of the United States and the District of Columbia. BAM provides credit enhancement products solely to issuers in the U.S. public finance markets. BAM will only insure obligations of states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM.

The address of the principal executive offices of BAM is: 200 Liberty Street, 27th Floor, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: [www.buildamerica.com](http://www.buildamerica.com).

BAM is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York and in particular Articles 41 and 69 of the New York Insurance Law.

BAM's financial strength is rated "AA/Stable" by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"). An explanation of the significance of the rating and current reports may be obtained from S&P at [www.standardandpoors.com](http://www.standardandpoors.com). The rating of BAM should be evaluated independently. The rating reflects the S&P's current assessment of the creditworthiness of BAM and its ability to pay claims on its policies of insurance. The above rating is not a recommendation to buy, sell or hold the Certificates, and such rating is subject to revision or withdrawal at any time by S&P, including withdrawal initiated at the request of BAM in its sole discretion. Any downward revision or withdrawal of the above rating may have an adverse effect on the market price of the Certificates. BAM only guarantees scheduled principal and scheduled interest payments payable by the issuer of the Certificates on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the Policy), and BAM does not guarantee the market price or liquidity of the Certificates, nor does it guarantee that the rating on the Certificates will not be revised or withdrawn.

**Capitalization of BAM.** BAM's total admitted assets, total liabilities, and total capital and surplus, as of March 31, 2019 and as prepared in accordance with statutory accounting practices

prescribed or permitted by the New York State Department of Financial Services were \$513.9 million, \$105 million and \$408.9 million, respectively.

BAM is party to a first loss reinsurance treaty that provides first loss protection up to a maximum of 15% of the par amount outstanding for each policy issued by BAM, subject to certain limitations and restrictions.

BAM's most recent Statutory Annual Statement, which has been filed with the New York State Insurance Department and posted on BAM's website at [www.buildamerica.com](http://www.buildamerica.com), is incorporated herein by reference and may be obtained, without charge, upon request to BAM at its address provided above (Attention: Finance Department). Future financial statements will similarly be made available when published.

BAM makes no representation regarding the Certificates or the advisability of investing in the Certificates. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Limited Offering Memorandum or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading "CERTIFICATE INSURANCE".

***Additional Information Available from BAM.***

Credit Insights Videos. For certain BAM-insured issues, BAM produces and posts a brief Credit Insights video that provides a discussion of the obligor and some of the key factors BAM's analysts and credit committee considered when approving the credit for insurance. The Credit Insights videos are easily accessible on BAM's website at [buildamerica.com/creditsights/](http://buildamerica.com/creditsights/). (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Credit Profiles. Prior to the pricing of bonds that BAM has been selected to insure, BAM may prepare a pre-sale Credit Profile for those bonds. These pre-sale Credit Profiles provide information about the sector designation (e.g. general obligation, sales tax); a preliminary summary of financial information and key ratios; and demographic and economic data relevant to the obligor, if available. Subsequent to closing, for any offering that includes bonds insured by BAM, any pre-sale Credit Profile will be updated and superseded by a final Credit Profile to include information about the gross par insured by CUSIP, maturity and coupon. BAM pre-sale and final Credit Profiles are easily accessible on BAM's website at [buildamerica.com/obligor/](http://buildamerica.com/obligor/). BAM will produce a Credit Profile for all bonds insured by BAM, whether or not a pre-sale Credit Profile has been prepared for such bonds. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Disclaimers. The Credit Profiles and the Credit Insights videos and the information contained therein are not recommendations to purchase, hold or sell securities or to make any investment decisions. Credit-related and other analyses and statements in the Credit Profiles and the Credit Insights videos are statements of opinion as of the date expressed, and BAM assumes no responsibility to update the content of such material. The Credit Profiles and Credit Insight videos are prepared by BAM; they have not been reviewed or approved by the District or the Underwriter for the Certificates, and the District and Underwriter assume no responsibility for their content.

BAM receives compensation (an insurance premium) for the insurance that it is providing with respect to the Certificates. Neither BAM nor any affiliate of BAM has purchased, or committed to purchase, any of the Certificates, whether at the initial offering or otherwise.



## THE DISTRICT

The following material is descriptive of the District. It has been prepared by or excerpted from sources as noted herein and has not been verified by Special Counsel or the Underwriter.

### General

The District was organized in 1941 pursuant to the Water Code of the State of California (Division 12, commencing with Section 30000 of the California Water Code) for the purposes of (i) providing, storing, and distributing water and (ii) collecting and treating certain wastewater and stormwater, all within its boundaries. The District is located in north-central Santa Cruz County, 50 miles southeast of the City of San Francisco, 300 miles north of the City of Los Angeles and 100 miles southwest of the City of Sacramento. The District owns, operates, and maintains four water systems that supply separate service areas from separate water sources. The North Service Area includes the unincorporated communities of Boulder Creek, Brookdale, Ben Lomond, Zayante and Lompico. The South Service Area encompasses portions of the City of Scotts Valley and adjacent unincorporated neighborhoods. The Mañana Woods subdivision became part of the South Service Area as a result of the District's annexation of the Mañana Woods Mutual Water Company in July 2006. The Felton Service Area was acquired by the District from California American Water in September 2008 and includes the town of Felton and adjacent unincorporated areas. The Lompico area became part of the North Service Area as a result of the District's annexation of the Lompico County Water District in June 2016. The District owns, operates, and maintains a wastewater system in Boulder Creek's Bear Creek Estates, which serves approximately 56 homes. All other homes in the District are served by individual onsite sewage disposal systems.

The District's boundaries comprise approximately 60 square miles and 170 miles of pipeline. The District currently provides service to a population of approximately 19,783 residents via 7,913 residential, commercial, and institutional connections.

Land use within the area served by the District is principally composed of single and multifamily residences; commercial, office and educational uses; and two State Parks, motels, and other popular tourist recreational destinations. Future economic growth of the area served by the District may result from modest growth activity in housing and commercial projects. The area was once heavy in the logging industry, especially during the rebuilding of San Francisco after the 1906 earthquake. More recently, economic and population growth in nearby Silicon Valley has made the area increasingly desirable due its more affordable housing stock and scenery. Over recent years, the District's primary water service has transitioned from serving rural and vacation cabins to providing urbanized, year-round water service. Tourism is a major local industry. In addition to Big Basin Redwoods State Park and Castle Rock State Park, the area served by the District is home to golf courses, a railroad attraction and other tourist sites. Agriculture is limited within the District, consisting of scattered small Christmas tree farms, orchards, nurseries, and vineyards. The area served by the District is also not, generally, the site of large industrial development.

### Governance

The District is governed by a five-member Board of Directors, elected at-large from within the District's service area. Directors are elected for four-year terms. The present directors, together with the expiration date of their terms of office, are listed below.

<u>Name</u>	<u>Time Served</u>	<u>Date Term Expires</u>
Lois Henry, President	6 mo.	December 2022
Bob Fultz, Vice President	6 mo.	December 2022
Lew Farris, Director	3 mo.	December 2020
Steve Swan, Director	6 mo.	December 2022
Vacant	--	--

### **Management and Employees**

The District Manager administers the day-to-day operations of the District in accordance with policies and procedures established by the Board of Directors. [SHORT BIO FOR RICK].

The District Manager is assisted in his duties by a Director of Finance, Stephanie Hill, and a Director of Operations, James Furtado. [SHORT BIO FOR STEPHANIE] [SHORT BIO FOR JAMES].

As of July 1, 2019, District employs a full-time staff of 34 employees organized into three departments, District Administration, Watershed and Engineering, and Treatment and Operations. The District's employees are covered by two collective bargaining agreements [\_\_\_\_], and the District has never experienced a work-stoppage.]

## **THE ENTERPRISE**

### **Water Supply and Production**

[CONFIRM ALL: The District relies on surface water stream diversions, and groundwater wells for supply, which have a combined capacity of approximately 2,100 acre-feet per year. These sources are derived solely from rainfall within the San Lorenzo River watershed and one groundwater spring. The San Lorenzo River watershed extends 21 miles from the river's mouth at Monterey Bay in Santa Cruz to the river's headwaters along Santa Cruz County's northern boundary. The San Lorenzo River watershed is a 138 square mile area and drains from the Castle Rock area of Summit to the north, Ben Lomond Mountain on the west and the Branciforte area on the eastside down to the Pacific Ocean at the north end of Monterey Bay by the Santa Cruz Beach Boardwalk. Notable tributaries of the river include Kings, Boulder, Bear, Bean, Fall, Newell, Zayante and Branciforte Creeks.

The San Lorenzo River historically supported the largest salmon and steelhead fishery south of San Francisco Bay and the fourth largest steelhead fishery in the State. However, coho salmon and steelhead are now listed as endangered and threatened, respectively. Historically the watershed has been used for timber harvesting, and quarrying, both of which uses continue at a diminished level today.

The rapid rates of development within the San Lorenzo River watershed, and conversion of second homes to year round use has caused degradation of the river from failing septic systems, urban runoff, excessive erosion and sedimentation, and reduced streamflow from water extraction. Since the 1970s, considerable efforts have been undertaken to address these issues through the development and implementation of numerous environmental efforts. While many of these efforts have made substantial steps toward addressing the problems, the San Lorenzo River continues to be listed by the federal and state government as impaired by several pollutants,

including high nitrate levels. Steelhead population levels continue to be depleted and coho salmon are locally extirpated, though current recovery efforts are focused on improving their habitat conditions in the watershed.

[CONFIRM: The District is not aware of any federal, state and local regulatory requirements or any environmental conditions, relating to the condition of the San Lorenzo River watershed or otherwise, that could result in any action or expense that could materially impact its ability to pay Installment Payments.]

Over the past ten years, the District has produced, on average, approximately 2,117 acre feet of water per year. Total water production for the last ten Fiscal Years, and an estimate for Fiscal Year 2018-19, is shown in the following table.

**TABLE 1  
 SAN LORENZO VALLEY WATER DISTRICT  
 ANNUAL WATER PRODUCTION  
 Fiscal Years 2009 through 2019**

<u>Fiscal Year Ended</u>	<u>Total Water Produced<sup>(1)</sup></u>
2009	2,180
2010	2,168
2011	2,283
2012	2,234
2013	2,335
2014	2,239
2015	1,828
2016	1,787
2017	1,976
2018	2,142
2019 <sup>(2)</sup>	2,029

Source: San Lorenzo Valley Water District.  
 (1) Acre feet per year.  
 (2) Estimated.

Over the past ten years, District customers have consumed, on average, approximately 1,725 acre feet of water per year. Total water consumption for the last ten Fiscal Years, and an estimate for Fiscal Year 2018-19, is shown in the following table.

**TABLE 2  
 SAN LORENZO VALLEY WATER DISTRICT  
 ANNUAL WATER CONSUMPTION  
 Fiscal Years 2009 through 2019**

<u>Fiscal Year Ended</u>	<u>Total Water Consumed<sup>(1)</sup></u>
2009	1,905
2010	1,781
2011	1,806
2012	1,789
2013	1,910
2014	1,995
2015	1,500
2016	1,461
2017	1,503
2018	1,602
2019 <sup>(2)</sup>	1,515

Source: San Lorenzo Valley Water District.

(1) Acre feet per year.

(2) Estimated.

**District Facilities and Capacity**

[ADD LOMPICO FACILITIES?] The District currently operates 17 supply sources (8 active groundwater wells and 9 active surface water diversions), 11 treatment facilities, 170 miles of distribution pipe, 35 storage reservoirs, 17 booster pump stations, and a network of 27 pressure zones. The District’s physical facilities also include administration offices and appurtenant facilities.

The 35 above-ground reservoirs (6 of them are sets of two reservoirs that are considered as one reservoir) provide operational, emergency, and fire protection storage. The following table presents a summary of the existing storage facilities in District, grouped by water system.

**TABLE 3  
SAN LORENZO VALLEY WATER DISTRICT  
STORAGE FACILITIES BY WATER SERVICE AREA**

**[ADD LOMPICO FACILITIES?]**

<u>System</u>	<u>Reservoir Name</u>	<u>Capacity<sup>(1)</sup></u>	<u>Material</u>
<b>North Service Area</b>	<b>TOTAL</b>	<b>7,200,600</b>	
	Upper Swim Tank	10,000	Redwood
	Lower Swim Tank	9,600	Redwood
	Quail 1	211,000	Steel
	Quail 2	240,000	Steel
	Reagan	14,500	Redwood
	University 1	50,800	Concrete
	University 2	75,000	Redwood
	Spring	65,000	Steel
	Brookdale	721,000	Steel
	South Reservoir	36,000	HDPE
	Nina 1	54,000	Redwood
	Nina 2	75,000	Redwood
	Highland	60,000	Redwood
	Bear Creek	75,000	Steel
	Ralston	10,000	Polyethylene
	Lyon Reservoir	3,000,000	Steel
	Big Steel	1,400,000	Steel
	Little Lyon	250,000	Steel
	Blackstone 1	22,000	HDPE
	Blackstone 2	22,000	HDPE
	Eckley	4,000	Polyethylene
	Huckleberry	125,000	Steel
	Reader	150,000	Steel
	Blueridge	40,000	Redwood
	Alder	700	Polyethylene
	Riverside Grove	380,000	Steel
Echo	100,000	Redwood	
<b>South Service Area</b>	<b>TOTAL</b>	<b>410,000</b>	
	Probation	100,000	Redwood
	Charlie	45,000	Redwood
	Blue	65,000	Redwood
	Upper Pasatiempo	100,000	Concrete
<b>Felton Service Area</b>	<b>TOTAL</b>	<b>410,000</b>	
	Pine Tank 1	18,000	Redwood
	McCloud	284,000	Steel
	Blair	265,000	Steel
	Upper El Solyo	20,000	Redwood
	Felton Acres 1	100,000	Redwood
	Felton Acres 2	15,000	Redwood

Source: San Lorenzo Valley Water District.  
(1) In gallons.

With the exception of the University 1 and Upper and Lower Pasatiempo reservoirs, which are concrete with a wood roof, all other District reservoirs are either redwood tanks, thermoplastic, or welded or bolted steel. Many redwood reservoirs leak due to age, weathering, and/or by nature of being a wooden tank. The Upper and Lower Swim Tanks each were designed with 20,000-gallon capacity. Due to the poor condition of the Swim Tanks, excessively leakage occurs when they are filled to their full capacity, so the operational capacity of each tank has been reduced to 10,000 gallons and 9,600 gallons. The District expects to replace the Swim Tanks as a portion of Project, thereby increasing storage capacity.

The District also operates 170 miles of distribution pipe. Many of the District's pipelines are undersized leading to intermittent low water pressure, interruptions of water service, and failure to meet current fire flow requirements. Roughly 40% of distribution pipelines are 4" diameter or smaller, while the District's specifications require a minimum diameter of 6". Nearly all pipelines under 4" diameter are galvanized steel pipes and multiple sections of 6" pipe are also steel, leaving the system vulnerable to damage from corrosion. Few of the District's pressure zones feature looped distribution systems, also increasing pressure loss in the system and leading to low water flow and pressure. Some pipelines are not buried, are resting on top of the ground in residential yards, and/or traverse environmentally sensitive habitat without adequate protection. The District performed a self-audit of water losses in 2015 and found a loss of 289 acre-feet per year, or roughly 16% of all water supplied from the District by volume. The audit did not identify where losses came from and are therefore attributed to leakage throughout the system. Information on which pipelines contribute to the most water loss was not available. While most of the distribution piping is able to support 20 pounds per square inch, the system is not able to meet fire flow requirements because it cannot deliver enough volume at that pressure due to undersized piping. The District expects to remediate such problems, in part, by replacing approximately 14,850 feet of pipeline as a portion of the Project.

The estimated maximum day demand and peak hour demand for each of the District's service areas are shown in the table below.

**TABLE 4  
SAN LORENZO VALLEY WATER DISTRICT  
MAXIMUM DAY DEMAND AND PEAK HOUR WATER DEMAND**

	<u>Felton</u>	<u>Lompico</u>	<u>San Lorenzo Valley<sup>(1)</sup></u>	<u>Total</u>
Max Day Demand (MGD)	0.960	0.130	5.080	6.170
Peak Hour Demand (MGH)	0.060	0.008	0.318	0.386

Source: San Lorenzo Valley Water District.

(1) The San Lorenzo Valley service area includes both the North and South service areas.

The District has approximately 7,913 service connections. The District has the storage capacity to supply over 4 hours of peak hour demand (PHD) in each of the District's service areas. The District does not have adequate pipeline infrastructure to supply 4 hours of PHD in each of the District's service areas, though the District has not received any water supply capacity violations as of the date hereof. Information about the District's storage capacity for peak hour demand is shown in the table below.

**TABLE 5  
SAN LORENZO VALLEY WATER DISTRICT  
STORAGE CAPACITY FOR PEAK HOUR WATER DEMAND**

	<u>Felton</u>	<u>Lompico</u>	<u>San Lorenzo Valley<sup>(1)</sup></u>	<u>Total</u>
Peak Hour Demand (MGH)	0.060	0.008	0.318	0.386
4-Hour PHD Volume (gal)	240,000	32,000	1,272,000	<b>1,544,000</b>
Storage Volume (gal)	702,000	N/A	7,610,600	<b>8,312,600+</b>

Source: San Lorenzo Valley Water District.

(1) The San Lorenzo Valley service area includes both the North and South service areas.

### **Water Treatment**

The District provides water to two separate drinking water systems: The San Lorenzo Valley Water District and the San Lorenzo Valley Water District-Felton. Each of these two drinking water systems has its own separate source of drinking water supply. The San Lorenzo Valley Water District and the San Lorenzo Valley Water District-Felton systems have an interconnection, which allows for the transfer of water between the two systems on an emergency basis. Streams undergo filtration at one of the District's conventional surface water treatment plants. Groundwater is treated at the wellhead.

### **Capital Improvement Program**

Other than acquiring the Project, the District does not anticipate financing any material amount of capital improvements over the next 5 years. The District recently financed the replacement of a storage tank at its Probation Tank site with the proceeds of the 2018 Installment Purchase Contract.]

### **Active Enterprise Water Service Accounts**

Water service charges for the District currently consist of (i) flat monthly charges and (ii) volumetric charges based on water consumption. The District currently projects that water service accounts will increase by 1 to 5 new residential accounts per year for next five years. That said, there can be no assurance that the number of accounts will not decline.

The Enterprise served 7,913 accounts as of June 30, 2018. Approximately 96% of Enterprise water service accounts serve residential customers, and residential accounts generate approximately 90.5% of total Enterprise Revenues. Summaries of active Enterprise water service accounts by class, number, and water service Revenues are shown in the following tables.

**TABLE 6**  
**SAN LORENZO VALLEY WATER DISTRICT**  
**WATER SERVICE ACCOUNTS BY CLASS**  
**Fiscal Year 2017-18**

<u>Customer Class</u>	<u>Number of Accounts</u>	<u>Percentage of Total</u>
Residential (Single Family and Multi-Family)	7,593	96.0%
Commercial	260	3.3
Landscape	14	0.2
Wholesale	46	0.6
<b>TOTAL</b>	<b>7,913</b>	<b>100.00%</b>

Source: San Lorenzo Valley Water District.

**TABLE 7**  
**SAN LORENZO VALLEY WATER DISTRICT**  
**WATER SERVICE REVENUES BY CLASS**  
**Fiscal Year 2017-18**

<u>Customer Class</u>	<u>Water Service Revenues</u>	<u>Percentage of Total</u>
Residential (Single Family and Multi-Family)	\$8,127,176	90.5%
Commercial	765,203	8.5
Landscape	54,843	0.6
Wholesale	36,119	0.4
<b>TOTAL</b>	<b>\$8,983,340</b>	<b>100.00%</b>

Source: San Lorenzo Valley Water District.



### Largest Enterprise Water Service Customers

The following table shows the top ten Enterprise water service customers based on revenue generated during Fiscal Year 2017-18. The top ten Enterprise water service customers accounted for \_\_\_% of total Enterprise water service Revenues in Fiscal Year 2017-18.

**TABLE 8  
SAN LORENZO VALLEY WATER DISTRICT  
TEN LARGEST ENTERPRISE WATER SERVICE CUSTOMERS BY REVENUE  
Fiscal Year 2017-18**

<u>Customer Name</u>	<u>Water Service Revenues</u>	<u>Percent</u>
	\$	%
<b>TOTAL TOP 10</b>	\$	%
All Other Accounts		
<b>TOTAL ALL ACCOUNTS</b>	\$	100.00%

Source: San Lorenzo Valley Water District.

### Enterprise Rates

In accordance with California law, the District may, from time to time, fix, alter or change fixed monthly system access fees, commodity charges and other fees related to the Enterprise. The District has the authority to establish charges for water service and wastewater service without the approval of any other governmental agency. It can terminate service to delinquent customers, require full payment of delinquent accounts, and impose reconnection fees to resume service.

The District staff periodically determines the adequacy of the Enterprise rate structures after full consideration of expected operations, maintenance and capital costs. In accordance with District policy, operating surpluses may be added to Enterprise unrestricted reserves, or returned to ratepayers through mitigation of future rate increases.

See “RISKS FACTORS – Proposition 218” herein for a discussion of the treatment of the District’s rates and charges in light of Proposition 218.

In February 2016, the District retained NBS Government Finance Group to prepare a cost-of-service study that included both water and wastewater rates (the “2017 Enterprise Rate Study”). The rate increases suggested by the 2017 Enterprise Rate Study were presented to the

District's Board and approved pursuant to the procedural requirements of Proposition 218 on May 24, 2017.

The 2017 Enterprise Rate Study initially lowered customers' fixed monthly water service connection costs while increasing cost per hundred cubic feet of water consumed ("CCF") and it removed a prior multi-tiered water service rate system. The 2017 Enterprise Rate Study resulted in a 5-year water service rate increase, with a shift to more consumption-based billing. 2017 Enterprise Rate Study also provided for a revenue stabilization rate policy, to prompt immediate action if a future, major water consumption gap, such as that caused by major drought or conservation efforts, were to occur. See "Revenue Stabilization Rates" below. Copies of the 2017 Enterprise Rate Study may be obtained from the District at the following address: 13060 Highway 9, Boulder Creek, California 95006, Attention: Director of Finance.

### **Water Service Rates**

The following table sets forth a summary of the Enterprise's prior water service rates, together with rate increases implemented pursuant to the 2017 Enterprise Rate Study.

**TABLE 9  
SAN LORENZO VALLEY WATER DISTRICT  
WATER SERVICE RATE STRUCTURE  
Fiscal Years 2016-17 through 2021-22**

		<b>2017 Enterprise Rate Study Water Service Rates – 30% Fixed/70% Variable</b>					
		<b>Prior Rates</b>	<b>Fiscal Year 2017-18</b>	<b>Fiscal Year 2018-19</b>	<b>Fiscal Year 2019-20</b>	<b>Fiscal Year 2020-21</b>	<b>Fiscal Year 2021-22</b>
<b>Projected Increase in Rate Revenue</b>		-	37.0%	7.0%	6.0%	5.0%	5.0%
<b><u>Monthly Fixed Service Charges</u></b>							
5/8 inch	per account	\$34.00	\$28.27	\$30.24	\$32.06	\$33.66	\$35.34
3/4 inch	per account	34.00	28.27	30.24	32.06	33.66	35.34
1 inch	per account	56.50	42.36	45.33	48.05	50.45	52.97
1 1/2 inch	per account	114.00	77.61	83.04	88.03	92.43	97.05
2 inch	per account	181.50	119.91	128.30	136.00	142.80	149.94
3 inch	per account	341.00	232.70	248.98	263.92	277.12	290.97
4 inch	per account	567.00	359.58	384.75	407.84	428.23	449.64
Surplus Water <sup>(1)</sup>	per account	114.00	77.61	83.04	88.03	92.43	97.05
<b><u>Volumetric Charges for All Water Consumed</u></b>							
Tier 1	0 - 4 ccf	\$3.81	--	--	--	--	--
Tier 2	5 - 15 ccf	4.97	--	--	--	--	--
Tier 3	16 - 50 ccf	5.96	--	--	--	--	--
Tier 4	51+ ccf	6.61	--	--	--	--	--
Drought Surcharge	per ccf	1.00	--	--	--	--	--
Flat Rate	per ccf	4.64	\$10.12	\$10.83	\$11.48	\$12.06	\$12.66
Surplus Water	per ccf	10.00	14.39	15.40	16.32	17.14	17.99

Source: San Lorenzo Valley Water District.

(1) Per District policy, Surplus water accounts are charged the 1-1/2 inch meter monthly fee.

## Revenue Stabilization Rates

To help the District respond to losses in volumetric rate water service revenue due to extraordinary conservation or unusual weather patterns, such as drought, “revenue-stabilization rates” were incorporated into the 2017 Enterprise Rate Study (the “Water Revenue Stabilization Rates”).

The District Manager will provide the District Board of Directors with the average units of water sales (by month) for the rolling previous three years, which will serve as the “baseline” against which current annual sales to date will be compared. The District Manager will include a revenue stabilization rate schedule in each budget year (with prepared Proposition 218 notices) indicating the volumetric rate for increases of 10%, 15%, and 20%. This information will be provided as a part of the District’s budget package each year. If the District Manager determines that annual water sales (in units) to date is more than 10% below expected year-to-date levels (based on monthly averages over the previous three-years), the District Manager will so-inform the Board of Directors and concurrently suggest expense reduction measures for consideration by the Board of Directors that will match the revenue gap. The District Manager shall also update the Board of Directors on current reserve levels and provide a staff analysis of why the water sales gap is occurring and a six-month projection of anticipated water sales.

Once so-informed by the District Manager, the Board of Directors may: (i) order the District Manager to implement all or part of the proposed expense reductions, (ii) order the District Manager to utilize reserves to meet all or part of the revenue gap, or (iii) order the District Manager to implement Water Revenue Stabilization Rates from the revenue-stabilization rate schedule provided by the District Manager corresponding to the level of volumetric water sales deficit (10%, 15%, or 20%). The Water Revenue Stabilization Rates will be the current uniform volumetric rate that is 10%, 15%, and 20% higher than then-standard rates.

Once the Board is informed by the District Manager that volumetric water sales revenue has returned to expected year-to-date volumetric rate revenue over (x) a three-year rolling average monthly water sales (in units) times (y) the currently adopted uniform volumetric water rate (as adjusted to budget), the Water Revenue Stabilization Rates will be automatically rescinded and return to the previous adopted uniform volumetric rates.

The following table sets forth a summary of the Enterprise’s Water Revenue Stabilization Rates, approved pursuant to the 2017 Enterprise Rate Study.

**TABLE 10**  
**SAN LORENZO VALLEY WATER DISTRICT**  
**WATER REVENUE STABILIZATION RATES**  
**Fiscal Years 2017-18 through 2021-22**

<u>Water Rate Schedule</u>	<u>Water Revenue Stabilization Rates (Volumetric)</u>				
	<u>Fiscal Year 2017-18</u>	<u>Fiscal Year 2018-19</u>	<u>Fiscal Year 2019-20</u>	<u>Fiscal Year 2020-21</u>	<u>Fiscal Year 2021-22</u>
<b>Volumetric Charges for All Water Consumed</b>					
Flat Rate (Uniform Rate)	\$10.12	\$10.83	\$11.48	\$12.06	\$12.66
<b>Water Revenue Stabilization Rates for All Water Consumed</b>					
10%	\$11.14	\$11.91	\$12.63	\$13.26	\$13.92
15%	11.64	12.46	13.20	13.86	14.56
20%	12.15	13.00	13.78	14.47	15.19

Source: San Lorenzo Valley Water District.

**Wastewater Service Rates**

The District owns, operates, and maintains a wastewater system in Boulder Creek's Bear Creek Estates, which serves approximately 56 homes. All other homes in the District are served by individual onsite sewage disposal systems. The District's wastewater service rates (the "Wastewater Service Rates") consist of a fixed monthly base charge per account and were increased significantly pursuant to the 2017 Enterprise Rate Study. The following table sets forth a summary of the Enterprise's historical and current Wastewater Service Rates.

**TABLE 11**  
**SAN LORENZO VALLEY WATER DISTRICT**  
**WASTEWATER SERVICE RATES**  
**Fiscal Years 2016-17 through 2021-22**

	<u>Prior Rates</u>	<u>2017 Enterprise Rate Study Wastewater Service Rates</u>				
		<u>Fiscal Year 2017-18</u>	<u>Fiscal Year 2018-19</u>	<u>Fiscal Year 2019-20</u>	<u>Fiscal Year 2020-21</u>	<u>Fiscal Year 2021-22</u>
<b>Monthly Fixed Service Charges</b>						
All Customers	\$149.00	\$181.82	\$218.18	\$261.82	\$314.18	\$377.02

Source: San Lorenzo Valley Water District.

## Enterprise Connection Fees

Connection fees imposed by the District are subject to California’s Mitigation Fee Act, embodied in Government Code 66000 *et seq.*, which the State Legislature passed, starting with Assembly Bill 1600 in 1989. The Act prescribes the means by which public agencies may impose development impact fees, including water connection fees. The District has established one-time connection fees (the “Connection Fees”) intended to reflect the cost of existing infrastructure and planned improvements available to new services. The connection fee places new utility customers on an equal basis from a financial perspective with existing customers. Once new customers are added to the system, they then incur the obligation to pay the above-described service charges or water rates that existing customers pay. The following table sets forth a summary of the Enterprise’s Connection Fees, approved pursuant to the 2017 Enterprise Rate Study.

**TABLE 12**  
**SAN LORENZO VALLEY WATER DISTRICT**  
**CONNECTION FEES**  
**As of Fiscal Year 2017-18**

<b>Meter Size (inches)</b>	<b>Maximum Connection Fee Per Meter</b>
5/8	\$10,577
3/4	10,577
1	17,629
1 ½	35,257
2	56,412
3	112,824
4	176,287
6	352,575
8	564,120

Source: San Lorenzo Valley Water District.

The District currently projects that water service connections will increase by 1 to 5 new residential accounts per year for next five years. That said, there can be no assurance that the number of accounts will not decline.

## **Lompico County Water District Assessment District Revenues**

Assessment District No. 2016-1 (the "Assessment District") was formed to finance the upgrade and repair of existing facilities within the Assessment District related to the merging of Lompico County Water District ("LCWD") with the District. The work consists of water system improvements, including generally replacing 6 existing redwood storage tanks, installing treatment system improvements at Mill Creek facilities, replacing existing service lines and meters, completion of an interconnection of LCWD and District systems, installing a Supervisory Control and Data Acquisition System for operational automation and replacing existing pressure reducing stations and other appurtenances.

The total cost of the project was apportioned among the 507 water service connections on the parcels within the Assessment District boundaries and an assessment (the "Lompico Assessment(s)") to pay therefor will be collected for 10 years beginning with the Fiscal Year 2016-17 levy. The annual levy for each connection is approximately \$580 plus annual administrative expenses. The Fiscal Year 2018-19 levy consisted of 486 parcels, 502 connections, and collected a total of \$300,056.12. Five connections prepaid the assessment and will not be levied in the future.

The administration expenses for the Assessment District will initially equal up to 2% of the annual installment of principal and interest payable on the assessment, and will be adjusted annually by the changes in the U.S. Department of Labor Consumer Price Index for the San Francisco-Oakland-San Jose Area index. The Fiscal Year 2018-19 administrative expenses were \$18.35 per connection, which includes the Santa Cruz County collection fee. The Lompico Assessments are collected by Santa Cruz County on its property tax roll. During Fiscal Year 1993-1994, the Board of Supervisors of the County adopted the Alternative Method of Tax Apportionment (the "Teeter Plan"). Under this method, the County allocates to all taxing jurisdictions under the County, including the Assessment District, 100% of the secured property taxes and assessments billed, even if it has not yet been collected. In return, the County retains the subsequent delinquent payments and associated penalties and interest. The delinquency rate for Fiscal Year 2017-18 was 3.39%.

The Installment Payments are not secured by a pledge of the Lompico Assessments, and the Lompico Assessments are not included in Revenues or Net Revenues as provided by the Installment Purchase Contract. Nonetheless, the District may and it expects to use revenue generated by the Lompico Assessments to pay for the portion of the Installment Payments attributable to projects completed within Assessment District boundaries, including those water storage and transmission projects related to the merging of LCWD with District described above.

## **Billing and Collection Procedures**

***Billing Procedure.*** All Enterprise fees and charges are billed on a monthly basis on a combined bill. All accounts are due and payable upon receipt, and are considered past due 21 days after the bill date. New accounts are required to guarantee payment of utility bills by payment of an advance billing fee deposit. The deposit may be applied to the bill after one year of good credit with the District, or refunded upon termination of services. The amount of any bill paid in part shall be allocated pro rata across all of such customer's District utilities consumed.

If Utility bills are not paid by the following bill due date, the utility services shall be subject to discontinuance after notice to customer. Delinquent notices, which will include a \$25 handling fee, are posted at the account address at least 72 hours ahead of discontinuance. The District is authorized to shut off the water service of any customer who has an unpaid balance exceeding the notice due date. Wastewater service is not usually shut off, however such service is greatly reduced as a result of water service cutoff. Before service to such customer shall be resumed, the customer must pay any unpaid District utility bill, all associated delinquent fees, a \$40 turn on service fee, and a new customer deposit (as described above).

All delinquent charges may constitute a lien upon the real property served (except publicly owned property and rental properties) when recorded as provided in the California Government Code, and such liens continue until the charges and all penalties thereon are fully paid, or the property is sold in satisfaction of the lien.

***Delinquent Fees and Charges.*** For the last five Fiscal Years the District's delinquencies with respect to the Enterprise have not exceeded 2% of annual Enterprise billings. The District has not had any material charges considered uncollectible in the past several years.

## **Impact of Drought, 2012 through 2017**

California recently experienced a historic, five-year drought, lasting from 2012 through early 2017, which was one of the worst droughts on record for the State. Water consumption within the District dropped by as much as 15% (in 2016) from a ten-year average consumption level of 1,725 acre feet of water per year as the result of Governor Brown's drought state of emergency conservation standards and mandates. Consequently, the District's Fiscal Year Revenues in drought years dropped to a low of \$5,237,534 in Fiscal Year 2015. As a temporary measure, the District initiated a drought surcharge in January 2016. The temporary surcharge was removed once the 2017 Enterprise Rate Study was implemented. To help the District respond to losses in volumetric rate water service revenue due to extraordinary conservation or unusual weather patterns, such as drought, the District incorporated the Water Revenue Stabilization Rates into the 2017 Enterprise Rate Study. See "Revenue Stabilization Rates" above. This counterbalances, in part, a shift to more consumption-based billing structure incorporated into the 2017 Enterprise Rate Study water service rates. See also "RISK FACTORS – Drought" herein.



## **DISTRCT FINANCIAL INFORMATION**

### **Financial Statements**

Attached as APPENDIX \_\_ are the audited financial statements of the District (the “Financial Statements”) for Fiscal Year 2017-18, prepared by the District Finance Department and audited by Fedak & Brown LLP, Cypress, California (the “Auditor”). The Auditor’s letter concludes that all the Financial Statements present fairly, in all material respects, the respective financial position of the District as of June 30, 2018, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with Generally Accepted Accounting Principles.

The Financial Statements should be read in their entirety. The District has not requested nor did the District obtain permission from the Auditor to include the Financial Statements as an appendix to this Limited Offering Memorandum. Accordingly, the Auditor has not performed any post-audit review of the financial condition or operations of the District. In addition, the Auditor has not reviewed this Limited Offering Memorandum.

### **Enterprise Accounting**

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs of providing water and wastewater services to its customers on a continuing basis be financed or recovered primarily through user charges (water and wastewater service fees). Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

Operating revenues, such as water and wastewater fees, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as property taxes and investment income, result from non-exchange transactions, in which, the District gives (receives) value without directly receiving (giving) value in exchange.

The District recognizes revenue from water and wastewater service charges based on cycle billings preformed every month. The District accrues revenues with respect to water and wastewater service sold, but not billed, at the end of a fiscal period.

See “APPENDIX \_\_ -- AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR FISCAL YEAR 2018” for a more complete summary of the District’s accounting policies.

### **Enterprise Budgets and Budgetary Accounting**

The District operates with a Fiscal Year that begins July 1 and ends on June 30. Generally Accepted Accounting Principles require the use of accrual accounting. The budget is based on the same accrual approach as the District’s audited financial statements with some minor differences. Revenues are recognized on the financial statements in the accounting period in which they are earned and expenses are recognized when incurred, even though they may not have been received or paid in cash.

The District Board of Directors annually adopts an operating and capital budget prior to the new Fiscal Year. The budget authorizes and provides the basis for reporting and control of financial operations and accountability for the District's enterprise operations and capital projects. The budget may only be amended during the course of the Fiscal Year by Board action. The Board of Directors considers the requests of staff at regularly scheduled meetings and approves or rejects the requests by motion and majority vote. In years where revenue falls significantly short of budget expectations, comprehensive mid-year revisions to the budget may be brought to the Board of Directors for approval.

The District's budget for Fiscal Year 2019-20 was adopted by the Board of Directors on June 20, 2019. Copies of such Fiscal Year 2019-20 District budget may be obtained from the District at the following address: 13060 Highway 9, Boulder Creek, California 95006, Attention: Director of Finance.

### **Revenues, Expenses and Changes in Net Position**

A three-year history of audited revenues, expenditures and changes in the District's net position, together with unaudited revenues, expenditures and changes in the District's net position for the most recently completed Fiscal Year, is presented, in the same form presented in the Supplemental Information to the District's Financial Statements, in the table below. See "APPENDIX \_\_ -- AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR FISCAL YEAR 2018 – Supplemental Information" herein.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

**TABLE 13**  
**SAN LORENZO VALLEY WATER DISTRICT**  
**HISTORY OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**Fiscal Years 2015-16 through 2018-19**

	Audited Fiscal Year 2015-16	Audited Fiscal Year 2016-17	Audited Fiscal Year 2017-18	Unaudited, Actual Fiscal Year 2018-19
<b>OPERATING REVENUES</b>				
Water Consumption Sales	\$6,145,076	\$7,157,650	\$8,983,340	\$10,150,000
Wastewater Service	100,000	100,000	100,138	111,820
Connection Fees, Charge and Penalties	194,444	178,632	128,305	75,000
Other Charges and Services	18,399	7,741	3,581	2,000
<b>TOTAL OPERATING REVENUES</b>	<b>\$6,457,919</b>	<b>\$7,444,023</b>	<b>\$9,215,364</b>	<b>\$10,338,820</b>
<b>OPERATING EXPENSES<sup>(1)</sup></b>				
Salaries and Benefits	\$3,304,540	\$4,498,595	\$4,840,518	\$4,900,000
Professional Services	834,427	1,135,253	1,419,279	1,350,000
Operational	398,057	445,917	320,876	415,000
Maintenance	183,215	130,244	143,714	175,000
Facilities	426,529	490,997	554,547	580,000
General and Administrative	352,510	314,979	382,857	360,000
<b>TOTAL OPERATING EXPENSES</b>	<b>\$5,499,278</b>	<b>\$7,015,985</b>	<b>\$7,661,791</b>	<b>\$7,780,000</b>
<b>NET OPERATING INCOME</b>	<b>\$958,641</b>	<b>\$428,038</b>	<b>\$1,553,573</b>	<b>\$2,558,820</b>
<b>NON-OPERATING INCOME<sup>(2)</sup></b>				
Property Tax	\$610,634	\$665,000	\$747,404	\$769,826
Investment Earnings	\$11,502	\$15,000	\$23,040	\$75,000
Rental Revenues	\$43,922	\$59,548	\$56,647	\$42,000
Lompico Assessments	\$28,930	\$281,000	\$298,000	\$286,000
Assessment Revenues, Olympia Assessment District – LIKE LOMPICO	\$0	\$77,000	\$50,355	\$50,355
SEPARATE BANK ACCOUNTS FOR LOMPICO AND OLYMPIA				
<b>TOTAL NON-OPERATING INCOME</b>	<b>\$694,988</b>	<b>\$1,097,548</b>	<b>\$1,175,446</b>	<b>\$1,223,181</b>
<b>NET REVENUES</b>	<b>\$1,653,629</b>	<b>\$1,525,586</b>	<b>\$2,729,019</b>	<b>\$3,782,001</b>
<b>PARITY OBLIGATION DEBT SERVICE</b>				
2008 Assigned Felton Loan Contract			\$186,797	\$186,797
State of California Revolving Fund Loan – FUNDED BY OLYMPIA, INCLUDES SOME DISTRICT DEBT (SMALL PORTION)			104,233	104,233
2012 Water Revenue Refunding Bonds			709,710	709,710
2016 Solar Government Obligation Contract			38,994	38,994
<b>TOTAL PARITY OBLIGATION DEBT SERVICE</b>	<b>\$</b>	<b>\$</b>	<b>\$1,039,735</b>	<b>\$1,039,735</b>
<b>NET REVENUE AFTER PAYMENT OF PARITY OBLIGATION DEBT SERVICE</b>	<b>\$</b>	<b>\$</b>	<b>\$1,689,284</b>	<b>\$2,742,266</b>
<b>PARITY OBLIGATION DEBT SERVICE COVERAGE, BASED ON NET REVENUES WITHOUT RESERVES</b>	<b>x</b>	<b>x</b>	<b>2.62x</b>	<b>3.64x</b>

Source: San Lorenzo Valley Water District.

(1) Generally equivalent to "Maintenance and Operation Costs."

(2) Excluding Interest Expenses attributable to Parity Obligation Debt Service. Excludes depreciation.

## **Projected Revenues and Expenses**

The following presents a five-year summary of projected revenues, expenditures and changes in the District's net position, together with corresponding coverage ratios, in the same form presented in the Supplemental Information to the District's Financial Statements, in the table below. See "APPENDIX \_\_\_ -- AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR FISCAL YEAR 2018 – Supplemental Information" herein. These projections are based upon the District's current rates, current circumstances and available information that the District believes to be reasonable. The assumptions may be affected by numerous factors and there can be no assurance that such projections will be achieved. Actual operating results achieved during the projection period may vary from those presented in the forecast and such variations may be material. See "RISKS FACTORS."

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

**TABLE 14**  
**SAN LORENZO VALLEY WATER DISTRICT**  
**SUMMARY OF PROJECTED REVENUES, EXPENSES AND CHANGES IN NET POSITION<sup>(1)</sup>**  
**Fiscal Years 2015-16 through 2018-19**

Agenda: 7.23.19  
Item: 4b

	Fiscal Year 2019-20	Fiscal Year 2020-21	Fiscal Year 2021-22	Fiscal Year 2022-23	Fiscal Year 2023-24
<b>OPERATING REVENUES<sup>(2)</sup></b>					
Water Consumption Sales	\$10,558,500	\$11,110,000	\$11,600,000	\$11,832,000	\$12,068,640
Wastewater Service	132,170	158,604	174,464	177,954	181,513
Connection Fees, Charge and Penalties	125,000	100,000	100,000	100,000	100,000
Other Charges and Services	2,000	2,000	2,000	2,000	2,000
<b>TOTAL OPERATING REVENUES</b>	<b>\$10,817,670</b>	<b>\$11,370,604</b>	<b>\$11,876,464</b>	<b>\$12,111,954</b>	<b>\$12,352,153</b>
<b>OPERATING EXPENSES<sup>(3), (4)</sup></b>					
Salaries and Benefits	\$5,170,000	\$5,428,500	\$5,699,925	\$5,984,921	\$6,284,167
Professional Services	1,075,000	1,118,000	1,162,720	1,209,229	1,257,598
Operational	440,000	457,600	475,904	494,940	514,738
Maintenance	220,000	228,800	237,952	247,470	257,369
Facilities	595,000	618,800	643,552	669,294	696,066
General and Administrative	340,000	353,600	367,744	382,454	397,752
<b>TOTAL OPERATING EXPENSES</b>	<b>\$7,840,000</b>	<b>\$8,205,300</b>	<b>\$8,587,797</b>	<b>\$8,988,308</b>	<b>\$9,407,690</b>
<b>NET OPERATING INCOME</b>	<b>\$2,977,670</b>	<b>\$3,165,304</b>	<b>\$3,288,667</b>	<b>\$3,123,646</b>	<b>\$2,944,463</b>
<b>NON-OPERATING INCOME<sup>(5)</sup></b>					
Property Tax <sup>(6)</sup>	\$792,921	\$808,779	\$824,955	\$841,454	\$858,283
Investment Earnings	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000
Rental Revenues	\$42,000	\$42,000	\$42,000	\$42,000	\$42,000
Lompico Assessments	\$280,000	\$280,000	\$280,000	\$280,000	\$280,000
Assessment Revenues, Olympia Assessment District	\$50,355	\$50,355	\$50,355	\$50,355	\$50,355
<b>TOTAL NON-OPERATING INCOME</b>	<b>\$1,180,276</b>	<b>\$1,196,134</b>	<b>\$1,212,310</b>	<b>\$1,228,809</b>	<b>\$1,245,638</b>
<b>NET REVENUES</b>	<b>\$4,157,946</b>	<b>\$4,361,438</b>	<b>\$4,500,977</b>	<b>\$4,352,455</b>	<b>\$4,190,101</b>
<b>PARITY OBLIGATION DEBT SERVICE</b>					
2008 Assigned Felton Loan Contract	\$186,797	\$186,797	\$186,797	\$186,797	\$186,797
State of California Revolving Fund Loan	104,233	104,233	104,233	104,233	104,233
2012 Water Revenue Refunding Bonds	608,298	506,885	104,799	--	--
2016 Solar Government Obligation Contract	38,994	38,994	38,994	38,994	38,994
2018 Installment Purchase Contract	127,862	145,829	145,571	145,302	145,022
The Installment Payments					
<b>TOTAL PARITY OBLIGATION DEBT SERVICE<sup>(7)</sup></b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>NET REVENUE AFTER PAYMENT OF PARITY OBLIGATION DEBT SERVICE</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>PARITY OBLIGATION DEBT SERVICE COVERAGE, BASED ON NET REVENUES WITHOUT RESERVES</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>
<b>PARITY OBLIGATION DEBT SERVICE COVERAGE, BASED ON NET REVENUES WITH UNENCUMBERED RESERVES<sup>(8)</sup></b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>

Source: San Lorenzo Valley Water District.

(1) Projections based upon Unaudited, Actual Fiscal Year 2018-19 numbers. See "Table 13, SAN LORENZO VALLEY WATER DISTRICT, HISTORY OF REVENUES, EXPENSES AND CHANGES IN NET POSITION, Fiscal Years 2015-16 through 2018-19" above.

- (2) Assumes that rate and fee revenue increases in accordance with the 2017 Enterprise Rate Study through Fiscal Year 2021-22, and by 2% annually thereafter. See "THE ENTERPRISE - Enterprise Rates, Water Service Rates, Revenue Stabilization Rates, Wastewater Service Rates, and Enterprise Connection Fees" above.
- (3) Generally equivalent to "Maintenance and Operation Costs."
- (4) Assumes that blended salary and benefits expenses increase by 5% annually through the five-year projection period. Assumes general cost inflation for all other operating expenses of 4% annually through the five-year projection period.
- (5) Excluding Interest Expenses attributable to Parity Obligation Debt Service and the Installment Payments. Excludes depreciation.
- (6) Assumes that property tax income increases by 3% in Fiscal Year 2019-20, and by 2% thereafter.
- (7) Maximum annual debt service is \$\_\_\_\_\_ which occurs in 20\_\_.
- (8) Includes unrestricted fund balances, as provided in the definition of "Net Revenues" in the Installment Purchase Contract. Assumes balance of \$\_\_\_\_\_ each year. See "Enterprise Reserves" below.

## Enterprise Reserves

The District has proposed a reserve policy for the Enterprise for approval on the August 1, 2019 Board of Directors agenda. The District maintains financial operating reserves within the Enterprise general fund, which may be used for Enterprise expenditures during years of unanticipated shortfalls in revenue as the result of reduced water service and wastewater service revenues. The District currently maintains an Enterprise general operating reserve in an amount of \$\_\_\_\_\_, which exceeds two years' of Maintenance and Operation Costs. The District also currently maintains an Enterprise capital improvement reserve fund with a current balance of \$\_\_\_\_\_. While the operating reserves and capital improvement reserve fund may be allocated by the District to pay Installment Payments, they are not pledged for such purpose. Such reserves may be utilized at any time for lawful expenditures by the District, and no assurance can be made that the reserves will be available to pay Installment Payments.

The District also maintains certain other cash-funded debt reserve funds that secure existing Parity Obligations and will not be available to pay Installment Payments.

## Insurance

The District participates with other public entities in a joint venture under a joint powers agreement which establishes the Special District Risk Management Authority ("SDRMA"). The purpose of SDRMA is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage. The relationship between the District and SDRMA is such that SDRMA is not a component unit of the District for financial reporting purposes.

The District is covered for the first (i) \$1,000,000,000 per occurrence for each property loss claim, (ii) \$5,000,000 per occurrence of each general liability claim, and (ii) \$5,000,000 per accident of each worker's compensation claim through SDRMA. The District is also covered for public officials and employees' errors and omissions, public officials' personal liability, employment practices and benefits liability, employee dishonesty coverage, and boiler and machinery losses.

For further information about the District's insurance coverages, see "APPENDIX B -- AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR FISCAL YEAR 2018 – Notes to the Financial Statements, Note 10, Risk Management."

## Retirement Systems

**Pension Benefits.** *The following information regarding CalPERS, the Miscellaneous Classic Plan, and the Miscellaneous PEPR Plan (as both are defined herein), other than the information provided by the District regarding its annual contributions thereto, has been obtained from publicly available sources which are believed to be reliable but are not guaranteed as to accuracy or completeness, and should not to be construed as a representation by either the District or the Underwriter.*

All qualified permanent and probationary District employees are eligible members of the California Public Employees' Retirement System ("CalPERS"). CalPERS acts as the common investment and administrative agent for participating public entities within the State of California, providing retirement benefits, annual cost-of-living adjustments, and death benefits to employee



plan members and their beneficiaries. Benefit provisions are established by the State statutes, as legislatively amended from time to time. CalPERS operates a number of retirement plans, including the CalPERS 2.0% at 55 Risk Pool Retirement Plan (the “Miscellaneous Classic Plan”) and the CalPERS 2% at 62 Risk Pool Retirement Plan (the “Miscellaneous PEPRA Plan”), which are two of the multiple-employer defined benefit retirement plans in which the District participates. Employees participating in such defined benefit retirement plans generally become fully vested in their retirement benefits earned to date after five years of credited service. Currently 17 District employees participate in the Miscellaneous Classic Plan and 17 District employees participate in the Miscellaneous PEPRA Plan.

Contributions by employer members to the defined benefit retirement plans are based upon actuarial rates determined annually, and contributions by members may vary based upon their date of hire. The District is currently required to contribute to CalPERS with respect to the Miscellaneous Classic Plan at an actuarially determined rate, which is 8.892% of eligible salary expenditures for fiscal year 2018-19. The employee participants’ portion of contributions with respect to the Miscellaneous Classic Plan is 7% of eligible salary expenditures for fiscal year 2018-19, CONFIRM: none which is paid by the District on behalf of each eligible Miscellaneous Classic Plan employee. The District is currently required to contribute to CalPERS with respect to the Miscellaneous PEPRA Plan at an actuarially determined rate, which is 6.842% of eligible salary expenditures for fiscal year 2018-19. The employee participants’ portion of contributions with respect to the Miscellaneous PEPRA Plan is 6.25% of eligible salary expenditures for fiscal year 2018-19, CONFIRM: none which is paid by the District on behalf of each eligible Miscellaneous PEPRA Plan employee.

In Fiscal Year 2015-16, the District’s annual contribution to CalPERS was \$232,831, for Fiscal Year 2016-17 the District’s annual contribution to CalPERS was \$172,110, for Fiscal Year 2017-18 the District’s annual contribution to CalPERS was \$522,774, and for Fiscal Year 2018-19 the District’s annual contribution to CalPERS is budgeted to be approximately \$480,850. In each such year such contributions were equal to 100% of the required contributions.

For further information about the District’s contributions to CalPERS, see “APPENDIX B - AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR FISCAL YEAR 2018 – Notes to the Financial Statements, Note 7, Defined Benefit Pension Plan” herein.

CalPERS issues a separate comprehensive financial report that includes financial statements and required supplemental information. Copies of such financial report may be obtained from CalPERS from its executive office at P.O. Box 942703, Sacramento, California 94229-2703. Moreover, CalPERS maintains a website, at [www.calpers.ca.gov](http://www.calpers.ca.gov). However, the information presented in such financial reports or on such websites is not incorporated into this Limited Offering Memorandum by any reference.

CalPERS has a substantial statewide unfunded liability. The amount of this unfunded liability and its effects upon a given risk pool will vary depending on actuarial assumptions, returns on investments, salary scales and participant contributions. In recent years, the Legislature of the State and the CalPERS Board of Administration (the “CalPERS Board”) have each taken steps, as described below, intended to reduce the amount of the unfunded accrued actuarial liability of CalPERS plans, including the Miscellaneous Classic Plan and the Miscellaneous PEPRA Plan.

On March 14, 2012, the PERS Board of Administration (the “PERS Board”) voted to lower the CalPERS’ rate of expected price inflation and its investment rate of return (net of

administrative expenses) (the "CalPERS Discount Rate") from 7.75% to 7.5%. As one consequence of such decrease, the annual contribution amounts paid by CalPERS member public agencies, including the District, increased by 1 to 2% for miscellaneous plans and by 2 to 3% for safety plans beginning in Fiscal Year 2013-14. On December 21, 2016, the CalPERS Board voted to further, incrementally lower the CalPERS Discount Rate from 7.5% to 7.0%, beginning in the Fiscal Year 2018-19 for public agencies, as follows: (i) in Fiscal Year 2018-19 the rate shall be 7.375%, (ii) in Fiscal Year 2019-20 the rate shall be 7.25% and (iii) in Fiscal Year 2020-21 and thereafter the rate shall be 7.00%.

On September 12, 2012, the Governor of the State signed into law the California Public Employee's Pension Reform Act of 2013 ("PEPRA"), which makes changes to CalPERS, most significantly affecting new employees hired after January 1, 2013 (the "Implementation Date"). For non-safety CalPERS participants hired after the Implementation Date, including all District employees hired thereafter, PEPRA changes the normal retirement age by increasing the eligibility for the 2% age factor from age 55 to 62 and increases the eligibility requirement for the maximum age factor of 2.5% to age 67. Among other changes, PEPRA also: (i) requires all new participants enrolled in CalPERS after the Implementation Date to contribute at least 50% of the total annual normal cost of their pension benefit each year as determined by an actuary, (ii) requires CalPERS to determine the final compensation amount for employees based upon the highest annual compensation earnable averaged over a consecutive 36-month period as the basis for calculating retirement benefits for new participants enrolled after the Implementation Date, and (iii) caps "pensionable compensation" for new participants enrolled after the Implementation Date at 100% of the federal Social Security contribution (to be adjusted annually based on changes to the Consumer Price Index for all Urban Consumers) and benefit base for members participating in Social Security or 120% for members not participating in social security (to be adjusted annually based on changes to the Consumer Price Index for all Urban Consumers), while excluding previously allowed forms of compensation under the formula such as payments for unused vacation, annual leave, personal leave, sick leave, or compensatory time off.

On April 17, 2013, the CalPERS Board approved new actuarial policies aimed at returning CalPERS to fully-funded status within 30 years. The policies include a rate smoothing method with a 30-year amortization period for gains and losses, a five-year increase of public agency contribution rates, including the contribution rate at the onset of such amortization period, and a five year reduction of public agency contribution rates at the end of such amortization period. The CalPERS Board delayed the implementation of the new actuarial policies until fiscal year 2015-16 for the State and all other public agencies and such policies have since been implemented as planned.

On February 20, 2014, the CalPERS Board approved new demographic assumptions reflecting (i) expected longer life spans of public agency employees and related increases in costs for the CalPERS system and (ii) trends of higher rates of retirement for certain public agency employee classes, including police officers and firefighters. The increase in liability due to the new assumptions will be amortized over 20 years with increases phased in over five years, beginning with the contribution requirement for fiscal year 2016-17. The new demographic assumptions affect the State and all other public agencies.

On November 18, 2015, the CalPERS Board adopted a funding risk mitigation policy aimed to incrementally lower the CalPERS Discount Rate in years of good investment returns, help pay down the pension fund's unfunded liability, and provide greater predictability and less volatility in contribution rates for employers. Under the funding risk mitigation policy, a mechanism

will be established to reduce the CalPERS Discount Rate by a minimum of 0.05 percentage points to a maximum of 0.25 percentage points in years when investment returns outperform the existing CalPERS Discount Rate (then 7.5 percent) by at least four percentage points. The four percentage point threshold would work to offset increases to employer contribution rates that would otherwise increase when the discount rate is lowered, and help pay down CalPERS' unfunded liability. As of the date of the policy's adoption, CalPERS staff anticipated that the policy would result in a lowering of the expected portfolio volatility to 8 percent in about 21 years, improve funding levels gradually over time, and cut risk in the CalPERS system by lowering the volatility of investment returns. While rates are expected to increase for CalPERS employers in the future, the policy is designed to minimize any increases above projected rates.

Finally, on February 13, 2018, the CalPERS Board adopted a number of further changes to its amortization policy applicable to all plans. Beginning with the valuation reports prepared as of June 30, 2019, CalPERS will: (1) shorten the period over which actuarial gains and losses are amortized from 30 years to 20 years (applying such change only to new gains/losses established on or after June 30, 2019), (2) amortize payments for all unfunded accrued liability bases to remain at a level dollar amount throughout the amortization period (applying such change only to new unfunded accrued liability bases established on or after June 30, 2019), (3) remove the five-year ramp-up and ramp-down on unfunded accrued liability bases attributable to assumption changes and non-investment gains/losses established on or after June 30, 2019 and (4) remove the five-year ramp-down on investment gains/losses established on or after June 30, 2019. Beginning with the valuation reports prepared as of June 30, 2017, CalPERS will also set a maximum amortization period of 15 years for all unfunded accrued liability of Inactive Employers (public agencies with no active members) and the CalPERS actuary will retain the ability to further shorten the period on any valuation date based on the life expectancy of plan members and projected cash flow needs of the Inactive Employer's plan.

The District can provide no assurances that its required contributions to CalPERS will not increase in the future as a result of the initiatives described above, or due to additional State of CalPERS Board action.

**OPEB Benefits.** The District provides post-employment healthcare benefits (the "Plan") for all permanent and vested full-time employees. The Plan is a single-employer defined benefit other poste-employment benefit plan ("OPEB") administered by the District. The District's Board has the authority to establish and amend the benefit terms and financing requirements of the Plan. The District sponsors healthcare coverage through the CalPERS Medical and Health Program, under the California Public Employees Medical and Hospital Care Act ("PEMCHA"), commonly referred to as PERS Health. The District has set aside funds to cover retiree health liabilities in a trust.

The District provides a capped benefit, which varies based on years of service and employee classification. Classified employees who retire directly from the District are eligible to receive a monthly benefit up to \$325, if having over 25 years District service. Classified employees with 15-24 years of service receive a monthly benefit up to \$275. Classified employees with fewer than 15 years of service receive a monthly benefit up to \$225. Management employees who retire directly from the District are eligible to receive a monthly benefit up to \$275, if having over 25 years of District service. Management employees with 15-24 years of service receive a monthly benefit up to \$175. Current retirees are subject to caps ranging from \$150/month to \$275/month. One retiree receives the full premium. The District also pays the PEMCHA administrative fee (0.23% for Fiscal Year 2018-19). In addition to the District's 34 active employees, six inactive employees or beneficiaries are currently receiving benefit payments under the Plan.

For the Fiscal Year ended June 30, 2017, the District recognized an OPEB expense of \$51,294 (being its annual required contribution plus interest accrued on its net OPEB obligation and as adjusted), and \$13,450 of such expense was funded on a pay-as-you-go basis. The District carried forward a net long-term OPEB liability, as of June 30, 2018, of \$996,281. For the Fiscal Year ended June 30, 2018, the District recognized an OPEB expense of \$95,377, and \$17,853 of such expense was funded on a pay-as-you-go basis. The District carried forward a net long-term OPEB liability, as of June 30, 2018, of \$1,029,266. The District has adopted Governmental Accounting Standards Board Statement No. 45 with respect to its OPEB and reports annual OPEB costs based on actuarially determined, annually audited amounts that, if paid on an ongoing basis, will provide sufficient resources to pay these benefits as they come due.

For further information about the OPEB, see “APPENDIX B -- AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR FISCAL YEAR 2018 – Notes to the Financial Statements, Note 6, Other Post-Employment Benefits.”

## **RISK FACTORS**

The following factors, along with other information in this Limited Offering Memorandum, should be considered by potential investors in evaluating the risks in the purchase of the Certificates.

### **Enterprise Demand and Growth**

There can be no assurance that the local demand for the services provided by the Enterprise will be maintained at levels described in this Limited Offering Memorandum. Reduction in the level of demand could require an increase in rates or charges in order to produce Net Revenues sufficient to comply with the District’s covenants in the Installment Purchase Contract. Such rate increases could increase the likelihood of nonpayment, and could also further decrease Enterprise customer demand. There can be no assurance that any other entity with regulatory authority over the Enterprise will not adopt further restrictions on the operation thereof.

### **Enterprise Expenses**

There can be no assurance that Maintenance and Operation Costs of the Enterprise will be consistent with the levels described in this Limited Offering Memorandum. The Enterprise is subject to federal, state and local regulatory requirements pertaining to drinking water quality and distribution, wastewater treatment and reuse, biosolids management, air quality, hazardous materials handling and waste management. Federal regulations are based upon provisions within the Safe Drinking Water Act, Clean Water Act, Clean Air Act, and Resource Conservation and Recovery Act. State and local regulations are prescribed by the California Air Resources Board, California Department of Toxic Substances Control, the State Water Board and the Regional Water Board. In the event that any of such regulatory entities should impose stricter quality standards upon the Enterprise, its expenses could increase accordingly and rates and charges may have to be increased to offset those expenses. It is not possible to predict the direction which State and federal regulation will take with respect to water and wastewater service. Changes in treatment, transportation and other types of technology, increases in the cost of energy, increased or decreased development within the District, or other expenses could also reduce Net Revenues, and could require increases in rates or charges in order for the District to comply with the rate

covenant in the Trust Agreement. Rate increases could increase the likelihood of nonpayment by the Enterprise customers, and could also decrease water service demands within the District.

### **[Concentration of Customers**

To be updated, if need be: The generation of Net Revenues is concentrated with certain major users in the District. The ten largest customers accounted for approximately \_\_\_\_% of Net Revenues in Fiscal Year 2017-18, with the top \_\_\_\_\_ users accounting for \_\_\_% of total Net Revenues. A future drop in demand for service by the Enterprise's largest customers could result in the amount of future Net Revenues being less than projected, and the actual amount of Net Revenues may be insufficient to provide for the payment of the Installment Payments, debt service payments upon the Existing Parity Obligations, and any additional then-outstanding indebtedness.]

### **Parity Obligations**

Although the District has covenanted not to issue additional obligations payable from Net Revenues senior to the Installment Payments and the debt service payments upon the Existing Parity Obligations, the Installment Purchase Contract permits the issuance by the District of certain indebtedness may have a lien upon the Net Revenues which is on a parity basis to the lien which secures the Installment Payments and the debt service payments upon the Existing Parity Obligations, if certain conditions and coverage tests are met. These coverage tests involve, to some extent, projections of Net Revenues. If such indebtedness is issued, the debt service coverage of the Installment Payments will be diluted below what it otherwise would be subject to under the coverage tests. Moreover, there is no assurance that the assumptions that form the basis of such projections, if any, will be actually realized subsequent to the date of such projections. If such assumptions are not realized, the amount of future Net Revenues may be less than projected, and the actual amount of Net Revenues may be insufficient to provide for the payment of the Installment Payments, the debt service payments upon the Existing Parity Obligations, and such additional indebtedness. See "SECURITY FOR THE CERTIFICATES - Limitations on Parity Obligations and Superior Obligations" herein and "THE ENTERPRISE - Projected Operating Results and Debt Service Coverage" for a description of anticipated debt service coverage on the Installment Payment and the debt service payments on the Existing Parity Obligations.

### **Proposition 218**

Proposition 218, a state ballot initiative known as the "Right to Vote on Taxes Act" was approved by California voters on November 5, 1996 and, except for certain provisions that became effective on July 1, 1997, became effective on November 6, 1996. Proposition 218 added Article XIIC, entitled "Voter Approval of Local Tax Levies" ("Article XIIC"), and Article XIID, entitled "Assessment and Property Related Fee Reform ("Article XIID"), to the California Constitution. Article XIIC and Article XIID limit the imposition by a local government of "general taxes," "special taxes," "assessments" and "fees" or "charges." The District is a local government within the meaning of Article XIIC and Article XIID.

Article XIIC, provides, among other things, that the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local fee or charge. This extension of the initiative power is not limited by the terms of Article XIIC to fees and charges imposed after November 6, 1996 and, absent other authority, could result in retroactive reduction in existing fees and charges. Although the terms "fees" and "charges" are not defined in Article XIIC, the

California Supreme Court, in *Bighorn-Desert View Water Agency v. Kari Verjil; E.W. Kelley* (July 2006), has stated that there is no basis for excluding from Article XIII C's authorization any of the fees subject to Article XIII D. If fees or charges charged or collected by the District for its Enterprise are subjected to the initiative process and the outcome of any initiative proceedings results in a reduction or repeal of such fees or charges, respectively, the ability of the Enterprise to generate Net Revenues sufficient to comply with the District's covenants under the Installment Purchase Contract may be adversely affected. Furthermore, if voters were to approve an initiative lowering the District's rates or other charges, the District would need voter approval before it could change the rate or charge that had been set by initiative. The District could, however, increase a charge that was not affected by initiative or to impose an entirely new charge without voter approval.

The California Supreme Court further stated in *Bighorn* that it was not holding that the initiative power is free of all limitations and was not determining whether the initiative power is subject to the statutory provision requiring that service charges be set at a level that will pay debt service on bonded debt and operating expenses. Such initiative power could be subject to the limitations imposed on the impairment of contracts under the contract clause of the United States Constitution. On July 1, 1997, a bill was signed into law by the Governor of the State enacting Government Code Section 5854, which states: "Section 3 of Article XIII C of the California Constitution, as adopted at the November 5, 1996 general election, shall not be construed to mean that any owner or beneficial Owner of a municipal security, purchased before or after that date, assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights protection by Section 10 of Article I of the United States Constitution." Government Code Section 5854 appears to limit the voters' power to repeal or reduce Enterprise fees and charges if such reductions would interfere with the District's payment of Installment Payments. If Government Code Section 5854 becomes the subject of a challenge, however, no guarantee can be made that the courts will agree with such interpretation.

Article XIII D prohibits the assessment upon any parcel of property or upon any person "as an incident of property ownership" (defined to exclude fees for the provision of electrical or gas service) by a local government of any tax, assessment, fee or charge except voter-approved *ad valorem* property taxes and special taxes, fees or charges as a condition of property development, and assessments and "fees or charges for property related services" levied or imposed in accordance with the provisions of Article XIII D.

Under Article XIII D, revenues derived from a "fee" or "charge" (defined as "any levy other than an *ad valorem* tax, a special tax or an assessment, imposed by a local government upon a parcel or upon a person as an incident of property ownership, including customer fees or charges for a property related service") may not exceed the funds required to provide the "property-related service" and may not be used for any purpose other than that for which the fee or charge was imposed. Further, the amount of a "fee" or "charge" may not exceed the proportional cost of the service attributable to the parcel, no "fee" or "charge" may be imposed for a service unless that service is actually used by, or is immediately available to, the owner of the property in question, and no "fee" or "charge" may be imposed for general governmental service where the service is "available to the public at large in substantially the same manner as it is to the property owners."

In addition, in order for a "fee" or "charge" to be imposed or increased, Article XIII D provides that, among other things, the parcel upon which a fee or charge is proposed for imposition must be identified, the amount of the fee or charge proposed to be imposed on each such parcel must be calculated, written notice by mail of the proposed fee or charge must be provided to the "record owner" of each identified parcel, and a public hearing must be conducted upon the proposed fee or charge. If written protests against the proposed "fee" or "charge" are

presented by a majority of owners of the identified parcels, the fee or charge may not be imposed. The California Supreme Court in *Bighorn* indicated that once a property owner or resident has paid the connection charges and has become a customer of a public water agency, all charges for water delivery incurred thereafter are charges for a property-related service, whether the charge is calculated on the basis of consumption or is imposed as a fixed monthly fee. Accordingly, the imposition or increase of any fee or charge by the District for water and wastewater service will be the subject of such a majority protest. If such a majority protest occurs, the ability of the Enterprise to generate Net Revenues sufficient to comply with the District's covenants under the Installment Purchase Contract may be adversely affected.

Article XIID states that, beginning July 1, 1997, all "fees" or "charges" must comply with its provisions. It is unclear how the provisions of Article XIID will be applied to fees or charges established prior to such date. It is also unclear how the provisions of Article XIID will be applied to fees or charges established after such date but prior to the *Bighorn* decision.

As a result of the *Bighorn* decision, there can be no assurance that Proposition 218 will not limit the ability of the District to impose, levy, charge and collect increased fees and charges for water and wastewater service.

The District believes that its current Enterprise rates comply with the requirements of Proposition 218 and expects that any future Enterprise rates will comply with Proposition 218's procedural and substantive requirements to the extent applicable thereto. The District further believes that Proposition 218 will not have any immediate adverse effect on the District's ability to comply with its covenants under the Installment Purchase Contract or the District's ability to operate the Enterprise. The District cannot predict the impact of Proposition 218 on any future Enterprise rate increases.

Numerous recent appellate court opinions interpret and apply Proposition 218 in the context of evaluating the validity of utility enterprise-related fees and charges. The District is unable to predict at this time how Proposition 218 will ultimately be interpreted by the courts and what, if any, further implementing legislation will be enacted, and there can be no assurance that Proposition 218 will not limit the future ability of the District to impose, levy, charge and collect increased fees and charges for Enterprise service.

## **Proposition 26**

Proposition 26 was approved by the electorate at the November 2, 2010 election and amended California Constitution Articles XIII A and XIII C. The proposition imposes a two-thirds voter approval requirement for the imposition of fees and charges by the State. It also imposes a majority voter approval requirement on local governments with respect to fees and charges for general purposes, and a two-thirds voter approval requirement with respect to fees and charges for special purposes. Proposition 26, according to its supporters, is intended to prevent the circumvention of tax limitations imposed by the voters in California Constitution Articles XIII A, XIII C and XIID of the California Constitution pursuant to Proposition 13, approved in 1978, Proposition 218, approved in 1996, and other measures through the use of non-tax fees and charges. Proposition 26 expressly excludes from its scope a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable cost to the State or local government of providing the service or product to the payor. Proposition 26 applies to charges imposed or increased by local governments after the date of its approval. The District believes that the District's current rates and charges for the Enterprise are not taxes under Proposition 26.

## **Constitutional Limit on Appropriations**

Under Article XIII B of the California Constitution, state and local government entities have an annual “appropriations limit” which limits their ability to spend certain moneys called “appropriations subject to limitation,” which consists of tax revenues, certain state subventions and certain other moneys, including customer charges to the extent they exceed the costs reasonably borne by the entity in providing the service for which it is levying the charge. In general terms, the “appropriations limit” is to be based on certain Fiscal Year 1978-79 expenditures, and is to be adjusted annually to reflect changes in the consumer price index, population, and services provided by these entities. Among other provisions of Article XIII B, if an entity’s revenues in any year exceed the amount permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years. The District is of the opinion that the rates and use charges imposed by the District in connection with the Enterprise do not exceed the costs the District reasonably bears in providing water and wastewater service.

## **No Obligation to Tax**

The obligation of the District to pay the Installment Payments does not constitute an obligation of the District for which the District is obligated to levy or pledge any form of taxation or for which the District has levied or pledged any form of taxation. The obligation of the District to pay Installment Payments does not constitute a debt or indebtedness of the District, the State of California or any of its political subdivisions, within the meaning of any constitutional or statutory debt limitation or restriction.

## **Drought**

Droughts that have had an adverse effect on California water supplies occurred in 1976, 1977 and 1987 through 1992, 2008 through 2011, and 2012 through early 2017. California recently experienced a historic, five-year drought, lasting from 2012 through early 2017, which was one of the worst droughts on record for the State. Due to drought conditions and court-ordered restrictions, on January 17, 2014 then-Governor Jerry Brown declared a State-wide Drought State of Emergency. On April 1, 2015, the Governor issued an executive order mandating certain water conservation measures, including a requirement that the State Water Board impose restrictions to achieve a statewide 25% reduction in urban water usage, through February 28, 2016, which executive order was thereafter extended and expanded upon on several occasions. Following unprecedented water conservation and plentiful winter rain and snow, Governor Brown ended the drought state of emergency in most of California on April 7, 2017.

No assurance is hereby given that future limitations on water supplies in California will not be imposed by Executive Order or otherwise, or that water enterprises and wastewater enterprises throughout the State will not experience reduced system demand as a result thereof. As of July 2019, after another year of heavy rain and snowfall in the State, drought monitors have declared only a small portion of Southern California, spanning parts of four counties, to be in drought status. However, one year prior, as of June 2018, drought monitors declared that nearly half of California, all of it in Southern California, had returned to drought status. On February 20, 2018, the State Water Resources Control Board indefinitely postponed a planned decision to adopt permanent prohibitions against certain wasteful water use practices (which prohibitions are to be based on those in effect between 2014 and 2016) in order to allow comment on changes proposed to address prior public comments.



Water consumption within the District dropped by as much as 15% (in 2016) from a ten-year average consumption level of 1,725 acre feet of water per year as the result of Governor Brown's drought state of emergency conservation standards and mandates. Consequently, the District's Fiscal Year Revenues in drought years dropped to a low of \$5,237,534 in Fiscal Year 2015. To help the District respond to losses in volumetric rate water service revenue due to extraordinary conservation or unusual weather patterns, such as drought, the District incorporated the Water Revenue Stabilization Rates into the 2017 Enterprise Rate Study. See "THE ENTERPRISE - Revenue Stabilization Rates" above. This counterbalances, in part, a shift to more consumption-based billing structure incorporated into the 2017 Enterprise Rate Study water service rates. Nonetheless, a future severe drought and related drop in demand for Enterprise services in the District could result in the amount of future Net Revenues being less than projected, and the actual amount of Net Revenues may be insufficient to provide for the payment of the Instalment Payments, debt service payments on the Existing Parity Obligations, and any additional then-outstanding indebtedness.

### **Geologic, Topographic and Climatic Conditions**

The value of the Enterprise, and its ability to generate Revenues, can be adversely affected by a variety of factors, particularly those which may affect infrastructure and other public improvements and private improvements and the continued habitability and enjoyment of such private improvements. Such additional factors include, without limitation, geologic conditions (such as earthquakes), topographic conditions (such as floods) and climatic conditions (such as windstorms, wildfires, and drought).

Engineering standards require that some of these factors be taken into account, to a limited extent, in the design of improvements, including the Enterprise. Some of these factors may also be taken into account, to a limited extent, in the design of other infrastructure and public improvements neither designed nor subject to design approval by the District. Design criteria in any of these circumstances are established upon the basis of a variety of considerations and may change, leaving previously-designed improvements unaffected by more stringent subsequently established criteria. In general, design criteria reflect a balance at the time of protection and the future costs of lack of protection, based in part upon a present perception of the probability that the condition will occur and the seriousness of the condition should it occur. Conditions may occur which may result in damage to improvements in varying degrees, and such damage may entail significant repair or replacement costs, and there can be no assurance that such repair or replacement will occur. Under any of these circumstances, the public and private improvements within the District in general may well depreciate or disappear, notwithstanding the establishment of design criteria for any such condition.

The District is located in Santa Cruz County. The nearest faults of major historical significance are the San Andreas, which runs through the County and the Hayward and Calaveras fault systems to the northeast. These faults have been in the past, and will continue in the future to be, the principal source of seismic activity affecting the County and the District. The epicenter of the 1987 magnitude 7.1 "Loma Prieta" earthquake was located in the Santa Cruz Mountains, along a segment of the San Andreas Fault System. The current, projected impacts of a similarly-sized earthquake hitting in the same area include: landslides along major transportation routes, including Highway 17; destructive fires due to gas line breaks; lengthy electrical transmission disruptions affecting large numbers of homes and businesses; significant bridge damage, including multiple failures; areas of liquefaction; and damage-driven isolation, which could make receiving needed supplies for survival and repair extremely challenging. Occurrence of future earthquakes could cause an interruption of deliveries of water to and from the District until repairs

could be effected, thus possibly diminishing the Revenues, the value of the Enterprise and the ability of property owners to pay the rates and charges billed and levied by the District.

In addition to the events described above, the District and Enterprise facilities are at risk from other events of force majeure, such as wildfire, floods, landslides and mudslides, explosions, strikes and lockouts, sabotage, wars, riots and spills or hazardous substances, among other events. Wildfire risk is significant within the District, and the District has been zoned into moderate and high Fire Hazard Severity Zones by Cal Fire. The District's forest ecosystem itself is at risk of significant fire damage, and the safety of the District residents and visitors in the surrounding communities is also at risk. The San Lorenzo River is, further, prone to major flooding events, affecting the communities of Boulder Creek, Ben Lomand and Felton. Damaging floods are known to have occurred in 1940, 1955, 1958 and 2017. No assurances can be given that the District will be able to repair any damage, revise any designs or commence or resume operation of the Enterprise following an event of force majeure.

Interruption of Enterprise service for any reason will not alter the legal obligation of the District to pay Installment Payments. However, a failure to provide water and wastewater service could materially adversely affect the generation of Net Revenues.

## **Insurance**

The District maintains liability and property insurance. [CONFIRM: This insurance does not cover damage caused by earthquakes nor does the District maintain self-insurance for such purpose.] Though the District believes that the District's coverages for the Enterprise are similar to those customarily maintained by similar utility systems, no assurances can be given that (i) such insurance will be adequate to cover any property damage or liability of the District with respect to the Enterprise in all circumstances or that (ii) such insurance will be carried in a coverage amount sufficient to prevent a material adverse impact on Net Revenues resulting from claims against the District with respect to the Enterprise or property damage sustained by the District and/or the Enterprise.

## **Statutory Changes and Initiatives**

In addition to the other limitations described herein, the California electorate or Legislature could adopt legislation or an initiative, respectively, with the effect of (i) reducing Net Revenues payable to or collected by the District for the Enterprise, (ii) adversely affecting the District's rights and powers, or (iii) imposing additional limitations or additional legal responsibilities on the District with respect to the Enterprise. Furthermore, there is no assurance that such change in law would not at some future time adversely affect the District's ability to pay Installment Payments.

## **Impact of State Budget**

During the Great Recession, occurring from 2009 through 2012, the State experienced severe budgetary shortfalls. The District cannot predict what measures may be proposed or implemented in the future should the State again experience recessionary conditions. Given the magnitude of past State budgetary deficits, it is possible that future legislation will impact revenues of local agencies. The District currently does not anticipate that the State budget issues will materially adversely impact the operation of its water and wastewater operations or its ability to pay Installment Payments or any of its other obligations as when due.

## **Limited Recourse on Default**

If the District defaults on its obligation to make Installment Payments, the Trustee, as assignee of the Corporation, has the right to accelerate the total unpaid principal amount of the Installment Payments. However, in the event of a default and such acceleration there can be no assurance that the District will have sufficient Net Revenues to pay the accelerated Installment Payments.

## **Limitations on Remedies Available; Bankruptcy**

The enforcement of any rights and remedies provided in the Trust Agreement, including but not limited to the remedy of acceleration of Installment Payments, could be substantial and the process lengthy. The enforceability of the rights and remedies of the Owners and the obligations of the District may become subject to the following: the Bankruptcy Code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; equitable principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State and its governmental bodies in the interest of servicing a significant and legitimate public purpose.

Any suit requesting accelerated payment of Installment Payments and/or money damages could be subject to limitations on legal remedies against municipalities and public agencies in California, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest. Furthermore, if a claim for money damage arises in the context of a Chapter 9 case, the Bankruptcy Code provides that "special revenues" as defined therein can be applied to necessary expenses of the applicable project or system before they are applied to any lien securing other obligations such as the Installment Payments. This rule applies regardless of the provisions of the transaction documents. It is not clear precisely which expenses would constitute necessary operating expenses and any definition in the transaction documents may not be applicable. See "THE CERTIFICATES – Acceleration" above.

Bankruptcy proceedings, or the exercising of powers by the federal or State government, if initiated, could subject the Owners to judicial discretion and interpretation of their rights in bankruptcy or otherwise and consequently may entail risks of delay, limitation, or modification of their rights, including their right to full repayment as well as payment terms. Although the District expects, that (i) the Net Revenues should be held to be "special revenues" under the Bankruptcy Code, (ii) the Net Revenues collected both before and after the date of any Chapter 9 filing should continue to be subject to the lien and terms of the Trust Agreement, (iii) the application of Net Revenues to the payment of Installment Payments should not be automatically stayed as a result of the operation of the Bankruptcy Code, (iv) if the application of Net Revenues to the payment of Installment Payments were automatically stayed, the Trustee should not be required to stay the application of Net Revenues and other funds securing the Certificates and subject to the lien of the Trust Agreement that are in its possession, whether the Trustee obtains possession before or after the District files under Chapter 9, and (v) that redistributing Net Revenues to address insolvency would be in violation of California law and should not be permitted as a result of a bankruptcy, no assurance can be given that any of such positions would be adopted by a reviewing court. Many issues under Chapter 9, including issues relevant to the impairment of "special revenues" obligations, have not yet been the subject of reported appellate decisions, and it has become difficult to anticipate judicial rulings in municipal bankruptcies due to

inconsistencies in opinions at the Bankruptcy Court and District Court level. For example, there is now some uncertainty regarding whether bondholders would be entitled to receive remittances of special revenues net of permitted necessary operating expenses during the pendency of a Chapter 9 bankruptcy proceeding and prior to confirmation of a plan of adjustment. This is based upon a lack of relevant appellate decisions, as well as inconsistencies between the holding in a January 30, 2018 decision by the District Court in Puerto Rico's ongoing proceedings pursuant to the Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA") (which act contains similarities to and incorporates certain provisions of Chapter 9 of the Bankruptcy Code, but which was not enacted as a part thereof) and prior municipal bankruptcy case decisions, such as those rendered in Jefferson County, Alabama's Chapter 9 bankruptcy case between 2011 and 2013.

There may be other possible effects of a bankruptcy of the District that could result in losses to the holders of the Certificates. Regardless of any specific adverse determinations in a District bankruptcy proceeding, the fact of a District bankruptcy proceeding could have an adverse effect on the liquidity and value of the Certificates. The legal opinions to be delivered concurrently with the Certificates (including Special Counsel's approving opinion) will be qualified as to the enforceability of the Bond documents, including the Trust Agreement, by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by general principles of equity applied in the exercise or judicial discretion.

### **Early Prepayment of Premium Certificates**

Certificates purchased, whether at original issuance or otherwise, for an amount greater than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Certificates") will be treated for federal tax purposes as having amortizable premium. If such Premium Certificates are redeemed prior to maturity (or, in some cases, prior to a scheduled Prepayment date) as described herein under "THE CERTIFICATES – Prepayment," not all of the amortized premium may be realized by the Owner. The Premium Certificates are treated as all other Certificates for purposes of selection for Prepayment prior to maturity as described herein.

### **Loss of Tax Exemption; IRS Audit of Tax-Exempt Issues**

As discussed in this Limited Offering Memorandum under the caption "TAX MATTERS," interest on the Certificates could become includable in gross income for purposes of federal income taxation retroactive to the date the Certificates were executed and delivered, as a result of future acts or omissions of the District in violation of its covenants in the Trust Agreement. Should such an event of taxability occur, the Certificates are not subject to a special prepayment and will remain outstanding until maturity or until redeemed under one of the other prepayment provisions contained in the Trust Agreement.

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the Certificates will be selected for audit by the IRS. It is also possible that the market value of the Certificates might be affected as a result of such an audit of the Certificates (or by an audit of similar bonds). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, the United States Congress or the IRS might not change the Tax Code (or interpretation thereof) subsequent to the issuance of the Certificates to the extent that it adversely affects the exclusion from gross income of interest on the Certificates or their market value.

## **Absence of Market for the Certificates**

There can be no assurance that there will ever be a secondary market for purchase or sale of the Certificates, and from time to time there may be no market for them, depending upon prevailing market conditions, the financial condition or market position of firms that may make the secondary market, and the financial condition of the District.

## **THE CORPORATION**

The Municipal Finance Corporation is a nonprofit public benefit corporation created for the purpose of aiding the financing of projects for California public agencies, including county water agencies. The Corporation may enter into other financings with other public agencies located in California which will have no impact on the Certificates. None of the funds of the Corporation are pledged to make any payments with respect to the Certificates. No assets of the Corporation are available to make any payments with respect to the Certificates. Neither the Corporation nor its officers have any obligations or liabilities to the Owners of the Certificates with respect to (i) the Certificates, (ii) the payment of the Installment Payments by the District when due, or (iii) the performance by the District of any other covenant made by it in the Installment Purchase Contract. The Corporation's articles of incorporation and bylaws empower it to act as the seller in this financing.

## **TAX MATTERS**

### **General**

In the opinion of Special Counsel, based on existing statutes, regulations, rulings and court decisions and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, the portion of each Installment Payment designated as and representing interest and received by the Owners of the Certificates (the "Interest Portion") is excluded from gross income for federal income tax purposes. [Special Counsel is further of the opinion that the Interest Portion is not a specific preference item for purposes of the federal alternative minimum tax, although Special Counsel observes that it is included in adjusted current earnings for purposes of the federal alternative minimum tax imposed on corporations for tax years beginning prior to January 1, 2018.] The opinions described in the preceding sentences assume the accuracy of certain representations and compliance by the District with covenants designed to satisfy the requirements of the Internal Revenue Code of 1986 (the "Code") that must be met subsequent to the execution and delivery of the Certificates. Failure to comply with such requirements could cause the Interest Portion to be included in gross income for federal income tax purposes retroactive to the date of execution and delivery of the Certificates. The District will covenant to comply with such requirements. Special Counsel has expressed no opinion regarding other federal tax consequences arising with respect to the Certificates. Special Counsel is of the opinion that under existing laws, regulations, rulings and judicial decisions, the Interest Portion is exempt from State of California personal income taxes.

The accrual or receipt of the Interest Portion may otherwise affect the federal income tax liability of the owners of the Certificates. The extent of these other tax consequences will depend upon such owners' particular tax status and other items of income or deduction. Special Counsel has expressed no opinion regarding any such consequences. Purchasers of the Certificates, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States), property or casualty insurance companies, banks, thrifts

or other financial institutions, certain recipients of social security or railroad retirement benefits, taxpayers otherwise entitled to claim the earned income credit, or taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, should consult their tax advisors as to the tax consequences of purchasing or owning the Certificates.

### **Tax Treatment of Original Issue Discount and Premium**

If the initial offering price to investors (excluding bond houses and brokers) at which a Certificate is sold is less than the amount payable at maturity thereof, then such difference constitutes "original issue discount" for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to investors (excluding bond houses and brokers) at which a Certificate is sold is greater than the amount payable at maturity thereof, then the excess of the tax basis of a purchaser of such Certificate (other than a purchaser who holds such Certificate as inventory, stock in trade or for sale to customers in the ordinary course of business) over the principal amount of such Certificate constitutes "original issue premium" for purposes of federal income taxes and State of California personal income taxes.

Under the Code, original issue discount is excludable from gross income for federal income tax purposes to the same extent as interest on the Certificates. Further, such original issue discount accrues actuarially on a constant interest rate basis over the term of each such Certificate and the basis of such Certificate acquired at such initial offering price by an initial purchaser of each such Certificate will be increased by the amount of such accrued discount. The Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the Certificates who purchase such Certificates after the initial offering of a substantial amount thereof. Owners who do not purchase such Certificates in the initial offering at the initial offering prices should consult their own tax advisors with respect to the tax consequences of ownership of such Certificates. All holders of such Certificates should consult their own tax advisors with respect to the allowance of a deduction for any loss on a sale or other disposition to the extent that calculation of such loss is based on accrued original issue discount.

Under the Code, original issue premium is amortized for federal income tax purposes over the term of such a Certificate based on the purchaser's yield to maturity in such Certificates, except that in the case of such a Certificate callable prior to its stated maturity, the amortization period and the yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such Certificate. A purchaser of such a Certificate is required to decrease his or her adjusted basis in such Certificate by the amount of bond premium attributable to each taxable year in which such purchaser holds such Certificate. The amount of bond premium attributable to a taxable year is not deductible for federal income tax purposes. Purchasers of such Certificates should consult their tax advisors with respect to the precise determination for federal income tax purposes of the amount of bond premium attributable to each taxable year and the effect of bond premium on the sale or other disposition of such a Certificate, and with respect to the state and local tax consequences of owning and disposing of such a Certificate.

### **Changes in Federal and State Tax Law**

From time to time, there are legislative proposals in the Congress and in the various state legislatures that, if enacted, could alter or amend federal and state tax matters referred to above or adversely affect the market value of the Certificates. Such proposals, if enacted into law, may reduce the market value of tax-exempt debt, such as the Certificates. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time

announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Certificates. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Certificates or the market value thereof would be impacted thereby. Purchasers of the Certificates should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Special Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Certificates and Special Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

### **Form of Opinion**

The form of Special Counsel's anticipated opinion is included as "APPENDIX \_\_\_." The statutes, regulations, rulings, and court decisions on which such opinion will be based are subject to change.

### **CONTINUING DISCLOSURE**

***Current Undertaking.*** The District has covenanted for the benefit of the owners of the Certificates to provide certain financial information and operating data relating to the Certificates to the Municipal Securities Rulemaking Board by not later than nine months (presently March 31<sup>st</sup>, the "Annual Report Filing Deadline") after the end of the District's most-recently-ended Fiscal Year (such financial information, the "Annual Report") and to provide notices of the occurrence of certain enumerated events so long as the Certificates are outstanding. If the Annual Report Filing Deadline falls on a non-business day, then the Annual Report will be submitted on the next regularly scheduled business day. The Annual Report and notices of events will be filed by the District with the Municipal Securities Rulemaking Board (the "MSRB"), as repository, and in accordance with the requirements of Securities Exchange Commission Rule 15c2-12(b)(5) (the "Rule").

The above covenants with respect to continuing disclosure have been made in order to assist the Underwriter in complying with the Rule. The specific nature of the information to be contained in the Annual Report or the notices of enumerated events is set forth in "APPENDIX \_\_\_ - FORM OF CONTINUING DISCLOSURE AGREEMENT."

***Previous Undertakings.*** The District has not been subject to any continuing disclosure obligations under the Rule within the last five Fiscal Years.

***Future Undertakings.*** The District believes that it has implemented sufficient policies and procedures in order to ensure the timely and correct filing of future Annual Reports and notices of enumerated events required under its existing continuing disclosure obligations, including the obligation pertaining to the Certificates.

### **LITIGATION**

[CONFIRM: There is no action, suit or proceeding known to be pending or threatened, restraining or enjoining the issuance or delivery of the Certificates, the Trust Agreement or the Installment Purchase Contract or in any way contesting or affecting the validity of the foregoing or any proceedings of the District taken with respect to any of the foregoing. The District is not

aware of any litigation pending or threatened questioning the existence or powers of the District or the ability of the District to pay Installment Payments.

Although the District is subject to a number of lawsuits in the ordinary conduct of its affairs, there are no claims or actions, threatened or pending which, if determined against the District, either individually or in the aggregate, would have a material adverse effect on the financial condition of the District or its ability to pay Installment Payments.]

## **CONCLUDING INFORMATION**

### **Underwriting**

The District has agreed to sell the Certificates to Municipal Capital Markets Group, Inc., as underwriter (the "Underwriter"), and the Underwriter has agreed, subject to certain conditions, to purchase the Certificates at a purchase price of \$\_\_\_\_\_ (the principal amount of the Certificates, plus net original issue premium of \$\_\_\_\_\_ and less an underwriting discount of \$\_\_\_\_\_). The obligations of the Underwriter are subject to certain conditions precedent, and it will be obligated to purchase all such Certificates if any such Certificates are purchased. The Underwriter intends to offer the Certificates to investors initially at the prices and/or yield set forth on the cover page of this Limited Offering Memorandum, which prices or yields may subsequently change without any requirement of prior notice.

The Underwriter reserves the right to join with dealers and other underwriters in offering the Certificates to investors. The Underwriter may offer and sell Certificates to certain dealers (including dealers depositing Certificates into investment trusts) at prices lower than the public offering prices, and such dealers may reallow any such discounts on sales to other dealers. In reoffering Certificates to investors, the Underwriter may overallocate or effect transactions which stabilize or maintain the market prices for Certificates at levels above those which might otherwise prevail. Such stabilization, if commenced, may be discontinued at any time.

### **Ratings**

S&P is expected to assign its municipal bond rating of "\_\_\_" to the Certificates, with the understanding that upon delivery of the Certificates, the Insurance Policy insuring the payment when due of the principal of and interest on the Certificates will be issued by the Insurer. "CERTIFICATE INSURANCE" herein.

Such rating reflects only the views of the ratings agency and any desired explanation of the significance of such rating should be obtained from S&P at the following address: S&P Global Ratings, a Standard & Poor's Financial Services LLC business, 55 Water Street, 45th Floor, New York, New York 10041. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that any rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating agency, if, in the judgment of such rating agency, circumstances so warrant. The District undertakes no responsibility to oppose any such revision or withdrawal. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Certificates.



## **Legal Opinions**

All legal matters in connection with the issuance of the Certificates are subject to the approval of Nossaman LLP, San Francisco, California, as Special Counsel. A copy of the approving opinion of Special Counsel will be provided to the registered owners of the Certificates, and the form of such opinion is attached hereto as "APPENDIX \_\_\_." Certain legal matters will be passed upon for the District by Nossaman LLP, Los Angeles, California, as District general counsel, and Nossaman LLP, San Francisco, California, as Disclosure Counsel. From time to time, Nossaman LLP may represent the Underwriter on matters not related to the Certificates.

## **Professional Fees**

In connection with the execution and delivery of the Bonds, fees payable to Bond Counsel, Disclosure Counsel, the Underwriter, and the Trustee are contingent upon the execution and delivery of the Certificates.

## **Miscellaneous**

Some of the data contained herein has been taken or constructed from District records. Appropriate officials of the District, acting in their official capacities, have reviewed this Limited Offering Memorandum and have determined that, as of the date hereof, the information contained herein is, to the best of their knowledge and belief, true and correct in all material respects and does not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made herein, in light of the circumstances under which they were made, not misleading. The execution and delivery of this Limited Offering Memorandum has been duly authorized by Board of Directors of the District.

## **SAN LORENZO VALLEY WATER DISTRICT**

By: \_\_\_\_\_  
District Manager

**APPENDIX A**  
**SUMMARY OF CERTAIN PROVISIONS OF THE**  
**PRINCIPAL LEGAL DOCUMENTS**

**APPENDIX B**

**AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR FISCAL YEAR 2018**

**APPENDIX C**  
**PROPOSED FORM OF FINAL OPINION**

**APPENDIX D**  
**FORM OF CONTINUING DISCLOSURE AGREEMENT**

## APPENDIX E

### BOOK-ENTRY PROVISIONS

**The information concerning DTC set forth herein has been supplied by DTC, and the District assumes no responsibility for the accuracy thereof.**

Unless a successor securities depository is designated pursuant to the Trust Agreement, DTC will act as Securities Depository for the Certificates. The Certificates will be executed and delivered as fully-registered securities, registered in the name of Cede & Co., DTC's partnership nominee, or such other name as may be requested by an authorized representative of DTC. One fully-registered Certificate will be executed and delivered for each maturity of the Certificates, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

**DTC and Its Participants.** DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve Enterprise, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing corporation" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.6 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfer and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC) as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others, such as both U.S. and non-U.S. securities brokers and dealers, banks and trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has been rated "AA+" by S&P. The DTC Rules applicable to its Participants are on file with the Securities Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

**Purchase of Ownership Interests.** Purchases of the Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Certificates on DTC's records. The ownership interest of each actual purchaser of each Certificate ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Certificates are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their

ownership interests in the Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

To facilitate subsequent transfers, all Certificates deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Certificates with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

**Notices and Other Communications.** Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. THE DISTRICT AND THE TRUSTEE WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH DTC PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE CERTIFICATES.

Prepayment notices shall be sent to DTC. If less than all of the Certificates within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

**Voting Rights.** Neither DTC nor Cede & Co. will consent or vote with respect to the Certificates unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to an issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

**Prepayment Proceeds.** Payments of principal and interest on the Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts on Interest Payment Dates in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the Interest Payment Date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Trustee, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of prepayment proceeds, principal and interest to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

THE TRUSTEE AND THE DISTRICT SHALL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DTC PARTICIPANT, ANY BENEFICIAL OWNER OR ANY OTHER PERSON CLAIMING A BENEFICIAL OWNERSHIP INTEREST IN THE CERTIFICATES UNDER OR THROUGH DTC OR ANY DTC PARTICIPANT, OR ANY OTHER PERSON WHICH IS NOT

SHOWN ON THE REGISTRATION BOOKS OF THE TRUSTEE AS BEING AN OWNER OF CERTIFICATES, WITH RESPECT TO THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT; THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OF ANY AMOUNT IN RESPECT OF THE PRINCIPAL OF, AND PREMIUM, IF ANY, OR INTEREST ON THE CERTIFICATES; ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO OWNER OF THE CERTIFICATES UNDER THE TRUST AGREEMENT; THE SELECTION BY DTC OR ANY DIRECT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL PREPAYMENT OF THE CERTIFICATES; ANY CONSENT OR OTHER ACTION TAKEN BY DTC AS OWNER OF THE CERTIFICATES; OR ANY OTHER PROCEDURES OR OBLIGATIONS OF DTC UNDER THE BOOK-ENTRY SYSTEM.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE CERTIFICATES, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE REGISTERED OWNERS OF THE CERTIFICATES SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE CERTIFICATES (EXCEPT FOR THE MATTERS UNDER THE CAPTION "TAX MATTERS" HEREIN)

The foregoing description of the procedures and record keeping with respect to beneficial ownership interests in the Certificates, payment of principal and interest on the Certificates to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial owner interest in such Certificates and other related transactions by and between DTC, the DTC Participants and the Beneficial Owner is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters, and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

**Discontinuance of Book-Entry System.** DTC may discontinue providing its services as securities depository with respect to the Certificates at any time by giving reasonable notice to the District or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Certificates are required to be printed and delivered as described in the Trust Agreement.

The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Certificates will be printed and delivered as described in the Trust Agreement.



**APPENDIX F**

**SPECIMEN MUNICIPAL CERTIFICATE INSURANCE POLICY**

Attachment 9

**Addendum No. 2 to Engagement Agreement for Legal Services**

THIS ADDENDUM (the “Addendum”) is made and entered into this \_\_\_<sup>th</sup> day of July 2019, by and between the San Lorenzo Valley Water District, whose address is 13060 Highway 9, Boulder Creek, CA 95006 (the “District”), and Nossaman LLP, a partnership including professional corporations (“Nossaman”), whose address is 777 S. Figueroa Street, 34th Floor, Los Angeles, CA 90017.

WITNESSETH:

WHEREAS, the District and Nossaman have previously entered into an Engagement Agreement for Legal Services as General Counsel to San Lorenzo Valley Water District, dated as of June 20, 2017 (the “Agreement”), pursuant to which certain special counsel services, including bond and financial services, are to be billed on an hourly basis at the rates set forth therein;

WHEREAS, the District now proposes to finance the acquisition and construction of certain improvements to its water system of the District (the “Project”); and

WHEREAS, Nossaman is specifically trained and experienced in the conduct of proceedings for accomplishing financing of the Project through the preparation of a Trust Agreement, Installment Purchase Contract and Certificates of Participation and related documents and agreements and disclosures for such purposes (together, the “Obligations”); and

NOW, THEREFORE, in consideration of the covenants and premises herein contained and other good and valuable consideration, the parties hereto agree as follows:

**1. Duties.** Nossaman shall provide legal services in connection with the authorization, execution and delivery of the Obligations (the “Transaction”). Such services shall include, but not be limited to, the following:

a. Conferring and consulting with the District’s officers, administrative staff, financial advisor, underwriter and other representatives of the District in connection with the preparation and formulation of the Transaction.

b. Attendance at all meetings of the District and any administrative meetings at which the Transaction is to be discussed or otherwise deemed necessary for the proper planning of the Transaction, when requested to attend such meetings by the District.

c. Preparation of the Resolution, security documents and all other resolutions, agreements, notices and other documents necessary for the proper conduct and consummation of the Transaction.

d. Preparation of the Limited Offering Memorandum and other disclosures to investors required in connection with the Transaction.

e. A review of all financial documents for legal sufficiency.

f. Preparation of an incumbency certificate, an arbitrage certificate, and any and all other closing documents required of the District to accompany delivery of the financing documents.

f. Attendance at and supervision of the closing, and issuing the legal opinion of Nossaman stating that the interest payments with respect to the Obligations is exempt from present Federal and State income taxes, as the case may be, and approving in all respects the legality of all proceedings for the authorization, issuance, sale and delivery of the Obligations and other agreements relating to the Transaction.

j. Preparation of a transcript of the closing of the Transaction.

h. Conferring and consulting with District officials and agents with regard to any problems which may arise prior to the maturity of the issuance.

i. Providing any other necessary services, including ongoing monitoring of the Transaction after the sale of the Obligations and assistance to the District regarding the Transaction, generally expected of Nossaman not listed above.

**2. Compensation.** For provision of the services to be rendered pursuant to this Addendum relating to the financing of the Project, and in lieu of the usual hourly billing for legal services described in the Agreement, the District shall pay Nossaman a flat fee of not to exceed \$55,000, which fee shall include general counsel legal services rendered in connection with the Transaction through its closing, as well as any out-of-pocket expenses incurred by it in the course of this engagement, such as reproduction and printing costs, word processing time, long distance telephone calls, travel at the request of the District and similar items. Said fee is payable only upon issuance of the Obligations, and shall be paid from proceeds thereof.

In the event Nossaman is requested to perform additional work outside of its normal and customary services as special counsel or disclosure counsel, such as litigation, Nossaman will be paid pursuant to the standard terms of the Agreement.

**3. Assignment.** This Addendum may be assigned by the District to any other issuer of the securities as may be necessary to consummate the Transaction, without the consent of but with notice to Nossaman.

**4. No Guarantees; Entire Agreement.** Nothing in this Addendum and nothing in our statements to you should be construed as a guarantee or promise about the outcome of the Transaction or any phase thereof. We make no such guarantees or promises. Comments about the course or outcome of the Transaction or any phase thereof which we may make from time to time are expressions of opinion only. This written Addendum constitutes the entire agreement between the parties hereto with respect to Nossaman services with respect to the Transaction and the Obligations only, and neither party has been induced to make or enter into this Addendum by reason or promise, agreement, representation, statement or warranty other than as herein contained.

**5. Counterparts.** This Addendum may be executed in counterparts each of which shall be deemed an original but all of which shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Addendum to be executed by their respective officers and representatives thereto duly authorized, all as of the day and year first above written.

SAN LORENZO VALLEY WATER  
DISTRICT

By: \_\_\_\_\_  
District Manager

NOSSAMAN LLP, a partnership including professional  
corporations

By: \_\_\_\_\_  
Katherine Thursby, a Partner