
WATER INSTALLMENT SALE AGREEMENT

Dated as of March 1, 2021

by and between

COALINGA PUBLIC FINANCING AUTHORITY, as Seller

and the

CITY OF COALINGA, as Purchaser

Relating to
\$ _____
Coalinga Public Financing Authority
Revenue Bonds, Series 2021A
(Water and Wastewater Financing Projects)
(Federally Taxable)
and
\$ _____
Coalinga Public Financing Authority
Revenue Bonds, Series 2021B
(Water Project)
(Tax-Exempt)

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WATER INSTALLMENT SALE AGREEMENT

THIS WATER INSTALLMENT SALE AGREEMENT, dated as of March 1, 2021 (this "Water Installment Sale Agreement"), is by and between the COALINGA PUBLIC FINANCING AUTHORITY, a joint powers authority duly organized and existing under the laws of the State of California (the "Authority"), and the CITY OF COALINGA, a general law city and municipal corporation duly organized and existing under the laws of the State of California (the "City"),

WITNESSETH:

WHEREAS, under Article 4 (commencing with section 6584) of Chapter 5 of Division 7 of Title 1 of the California Government Code (the "Bond Law") the Authority is authorized to borrow money for the purpose of financing the acquisition of bonds, notes and other obligations of, or for the purpose of making loans to, public entities including the City, and to provide financing for public capital improvements of public entities including the City; and

WHEREAS, the Authority has previously issued its \$12,830,000 Coalinga Public Financing Authority Revenue Bonds, Series 2012 (Water and Wastewater Financing Projects) (the "2012 Bonds"), of which \$12,200,000 principal amount is outstanding, to finance and refinance the acquisition and construction of certain improvements and facilities constituting part of the City's municipal water enterprise (the "Water System") and to finance and refinance the acquisition and construction of certain improvements and facilities constituting part of the City's municipal wastewater enterprise (the "Wastewater System");

WHEREAS, the principal of and interest on the 2012 Bonds are paid from revenues derived from installment payments made by the City under an installment sale agreement secured by a pledge of the net revenues of the Water System and installment payments made by the City under an installment sale agreement secured by a pledge of the net revenues of the Wastewater System;

WHEREAS, the City has determined that, due to prevailing financial market conditions and for other reasons, it is in the best interests of the City to (a) refinance its obligations to make payment with respect to the 2012 Bonds and to provide for the advance refunding of the 2012 Bonds, and (b) finance the acquisition and construction of additional improvements and facilities of the Water System (the "Water Improvement Project");

WHEREAS, for the purpose of raising funds necessary to provide such financial assistance to the City, the Authority proposes to authorize the issuance of its revenue bonds under the provisions of Article 4 (commencing with section 6584) of Chapter 5 of Division 7 of Title 1 of the California Government Code, designated as the Coalinga Public Financing Authority Revenue Bonds, Series 2021A (Water and Wastewater Financing Projects) (Federally Taxable) (the "Series A Bonds"), and the Coalinga Public Financing Authority Revenue Bonds, Series 2021B (Water Project) (Tax-Exempt) (the "Series B Bonds" and, with the Series A Bonds, the "Bonds"), all pursuant to and secured by an indenture of trust, by and between the Authority and Wells Fargo Bank, National Association, as trustee;

WHEREAS, in order to provide for the repayment of the Bonds, (a) the City will sell the Water System to the Authority and the Authority will sell the Water System and the Water Improvement Project to the City pursuant to this Water Installment Sale Agreement, under which the City will agree to make installment payments to the Authority payable from the net revenues of the Water System, and (b) the City will sell the Wastewater System to the Authority

and the Authority will sell the Wastewater System to the City pursuant to an installment sale agreement (the "Wastewater Installment Sale Agreement"), under which the City will agree to make installment payments to the Authority payable from the net revenues of the Wastewater System which payments, together with the payments under the Water Installment Sale Agreement, will be calculated to be sufficient, in time and amount, to enable the Authority to pay the principal of and interest and premium (if any) on the Bonds when due and payable;

WHEREAS, the Authority and the City have duly authorized the execution and delivery of this Water Installment Sale Agreement;

NOW, THEREFORE, for and in consideration of the premises and the material covenants hereinafter contained, the parties hereto hereby formally covenant, agree and bind themselves as follows:

ARTICLE I
DEFINITIONS

Section 1.1. Definitions. Unless the context clearly otherwise requires or unless otherwise defined herein, the capitalized terms in this Water Installment Sale Agreement shall have the respective meanings specified in the Indenture.

ARTICLE II
COVENANTS AND REPRESENTATIONS

Section 2.1. Covenants and Representations of the City. The City makes the following covenants and representations to the Authority that as of the Closing Date:

(a) The City is a general law city and municipal corporation duly organized and validly existing under the laws of the State, has full legal right, power and authority to enter into the Water Acquisition Agreement and this Water Installment Sale Agreement and to carry out and consummate all transactions contemplated hereby, and by proper action has duly authorized the execution and delivery of the Water Acquisition Agreement and this Water Installment Sale Agreement.

(b) The representatives of the City executing this Water Installment Sale Agreement are fully authorized to execute the same.

(c) The Water Acquisition Agreement and this Water Installment Sale Agreement have been duly authorized, executed and delivered by the City, and constitute the legal, valid and binding agreements of the City, enforceable against the City in accordance with their respective terms.

(d) The execution and delivery of the Water Acquisition Agreement and this Water Installment Sale Agreement, the consummation of the transactions therein and herein contemplated and the fulfillment of or compliance with the terms and conditions hereof, will not conflict with or constitute a violation or breach of or default (with due notice or the passage of time or both) under any applicable law or administrative rule or regulation, or any applicable court or administrative decree or order, or any indenture, mortgage, deed of trust, lease, contract or other agreement or instrument to which the City is a party or by which it, the Water System or the Water Improvement Project are otherwise subject or bound, or result in the creation or imposition of any prohibited lien, charge or encumbrance of any nature whatsoever upon any of the property or assets of the City, which conflict, violation, breach, default, lien, charge or encumbrance would have consequences that would materially and adversely affect the consummation of the transactions contemplated by the Water Acquisition Agreement and this Water Installment Sale Agreement, or the financial condition, assets, improvements or operations of the Water System.

(e) No consent or approval of any trustee or holder of any indebtedness of the City or of the voters of the City, and no consent, permission, authorization, order or license of, or filing or registration with, any governmental authority, is necessary in connection with the execution and delivery of the Water Acquisition Agreement and this Water Installment Sale Agreement or the consummation of any transaction herein contemplated, except as have been obtained or made and as are in full force and effect.

(f) There is no action, suit, proceeding, inquiry or investigation before or by any court or federal, state, municipal or other governmental authority pending or threatened against or affecting the City or the Water System which, if determined adversely to the City or its interests, would have a material and adverse effect upon the consummation of the transactions contemplated by or the validity of the Water Acquisition Agreement or this Water Installment Sale Agreement or upon the financial condition or operation of the Water System, and the City is not in default with respect to any order or decree of any court or any order, regulation or demand of any federal, state, municipal or other governmental authority, which default might

have consequences that would materially and adversely affect the consummation of the transactions contemplated by the Water Acquisition Agreement or this Water Installment Sale Agreement, or the financial conditions or operations of the Water System.

(g) The City has heretofore established the Water Fund into which the City deposits and will continue to deposit all Water System Gross Revenues, and which the City will maintain throughout the Term of this Water Installment Sale Agreement.

(h) There are no outstanding bonds, notes, loans, leases, installment sale agreements or other obligations which have any security interest in or claim upon the Water System Net Revenues, which security interest or claim is superior to or on a parity with the Water Installment Payments.

Section 2.2. Covenants and Representations of the Authority. The Authority makes the following covenants and representations to the City that as of the Closing Date:

(a) The Authority is a joint powers entity, duly organized and existing under the laws of the State. The Authority has the power to enter into the transactions contemplated by the Water Acquisition Agreement and this Water Installment Sale Agreement and to carry out its obligations hereunder. By proper action of its governing body, the Authority has been duly authorized to execute, deliver and duly perform the Water Acquisition Agreement and this Water Installment Sale Agreement and the Indenture.

(b) To finance the refunding of the 2012 Bonds, the Water Improvement Project and the Costs of Issuance, the Authority will issue the Bonds, which will mature, bear interest and be subject to redemption as set forth in the Indenture.

(c) The Bonds will be issued under and secured by the Indenture, and pursuant thereto, certain of the Authority's interests in this Water Installment Sale Agreement have been assigned to the Trustee as security for payment of a portion of the principal of, premium, if any, and interest on the Bonds.

(d) The Authority is not in default under any of the provisions of the laws of the State, which default would affect its existence or its powers referred to in subsection (a) of this Section 2.2.

ARTICLE III

ISSUANCE OF BONDS; ACQUISITION AND CONSTRUCTION OF WATER IMPROVEMENT PROJECT

Section 3.1. The Bonds. The Authority has authorized the issuance of the Bonds pursuant to the Indenture in the aggregate principal amount of _____ dollars (\$_____). The Authority agrees that the proceeds of sale of the Bonds shall be paid to the Trustee on the Closing Date for deposit pursuant to the terms and conditions of the Indenture. The City hereby approves the Indenture, the assignment to the Trustee of the rights of the Authority assigned under and pursuant to the Indenture, and the issuance of the Bonds by the Authority under and pursuant to the Indenture.

Section 3.2. Plans and Specifications for the Water Improvement Project. Before any payment is made for the Water Improvement Project or any component thereof from amounts on deposit in the Water Improvement Project Fund, the City shall have filed with the Authority detailed Plans and Specifications relating thereto. The City may from time to time file amendments to such Plans and Specifications with the Authority, and may thereby change or modify the description of the Water Improvement Project or any component thereof.

Section 3.3. Acquisition and Construction of the Water Improvement Project. The Authority hereby agrees with due diligence to supervise and provide for, or cause to be supervised and provided, for the Acquisition and Construction of the Water Improvement Project in accordance with Plans and Specifications, purchase orders, construction contracts and other documents relating thereto and approved by the City pursuant to all applicable requirements of law. Direct payment of the costs of the Water Improvement Project shall be made from amounts on deposit in the Water Improvement Project Fund, pursuant to Section 3.05 of the Indenture. All contracts for, and all work relating to, the Acquisition and Construction of the Water Improvement Project shall be subject to all applicable provisions of law relating to the acquisition and construction of public works by the City. The Authority expects that the Acquisition and Construction of the Water Improvement Project will be completed on or before March 1, 2024; *provided, however*, that the failure to complete the Water Improvement Project by the estimated Completion Date thereof shall not constitute an Event of Default hereunder or a grounds for termination hereof, nor shall such failure result in the diminution, abatement or extinguishment of the obligations of the City hereunder to pay the Water Installment Payments allocable to such Water Improvement Project.

The City shall have the right from time to time in its sole discretion to amend the description of the Water Improvement Project to be financed and sold by the Authority hereunder. In order to exercise such right, the City shall file with the Authority and the Trustee an amended Exhibit C hereto.

Upon the completion of the Acquisition and Construction of the Water Improvement Project, but in any event not later than thirty (30) days following such completion, the Authority Representative or the City Representative shall execute and deliver to the Trustee a Written Certificate which (a) states that the Acquisition and Construction of such Water Improvement Project have been substantially completed; (b) identifies the total cost of the Water Improvement Project thereof; and (c) identifies (i) the amounts, if any, to remain on deposit in the Water Improvement Project Fund for payment of costs of the Water Improvement Project thereafter intended to be requisitioned by the Authority and (ii) the amounts to be transferred to the Bond Fund. Upon the filing with the Trustee of the final Written Requisition for payment

of costs of the Water Improvement Project, the Authority shall direct the Trustee to close the Water Improvement Project Fund.

Section 3.4. Grant of Easements. The City hereby grants to the Authority all necessary easements, rights of way and rights of access in and to all real property or interests therein now or hereafter acquired and owned by the City, as may be necessary or convenient to enable the Authority to acquire, construct and install the Water Improvement Project thereon or thereabouts. The City covenants that it will execute, deliver and record any and all additional documents as may be required to be executed, delivered and recorded to establish such easements, rights of way and rights of access.

Section 3.5. Appointment of City as Agent of Authority. The Authority hereby appoints the City as its agent to carry out all phases of the Acquisition and Construction of the Water Improvement Project pursuant to and in accordance with the provisions hereof. The City hereby accepts such appointment and assumes all rights, liabilities, duties and responsibilities of the Authority regarding the Acquisition and Construction of the Water Improvement Project. The Authority, or the City as agent of the Authority hereunder, shall enter into, administer and enforce all purchase orders or other contracts relating to the Acquisition and Construction of the Water Improvement Project. The City shall submit Written Requisitions of the City to the Trustee from time to time pursuant to and in accordance with the provisions of Section 3.04 and 3.05 of the Indenture for payment, or for reimbursement to the City for payment, of all Water Improvement Project Costs. All contracts for, and all work relating to, the Acquisition and Construction of the Water Improvement Project shall be subject to all applicable provisions of law relating to the acquisition, construction, improvement, and equipping of like property by joint powers entities and by municipal corporations.

ARTICLE IV

SALE; WATER INSTALLMENT PAYMENTS

Section 4.1. Sale. The Authority hereby agrees to sell the Water System and the Water Improvement Project to the City, and the City hereby agrees to purchase the Water System and the Water Improvement Project from the Authority, upon the terms and conditions set forth in this Water Installment Sale Agreement.

Section 4.2. Term. The Term of this Water Installment Sale Agreement shall commence on the Closing Date, and shall end on the date on which the City shall have paid all of the Water Installment Payments and all other amounts due and payable hereunder. The provisions of this Section 4.2 are subject in all respects to any other provisions of this Water Installment Sale Agreement relating to the termination hereof with respect to the Water Project or any portion thereof.

Section 4.3. Title. Upon the Completion Date of each component of the Water Improvement Project, title to such component shall be deemed conveyed to and vested in the City. The Authority and the City shall execute, deliver and cause to be recorded any and all documents necessary to convey such title to the City.

Section 4.4. Water Installment Payments.

(a) *Obligation to Pay*. The City agrees to pay to the Authority, its successors and assigns, but solely from the Water System Net Revenues and other funds pledged hereunder, as the purchase price of the Water System and the Water Improvement Project the aggregate principal amount of _____ dollars (\$_____), together with interest on the unpaid principal balance, payable in Water Installment Payments coming due and payable in the respective amounts and on each Water Installment Payment Date specified in Exhibit A. The Water Installment Payments shall be paid by the City to the Trustee, as assignee of the Authority pursuant to the Indenture, in the amounts and at the times as set forth in Section 4.5(b).

(b) *Effect of Prepayment*. In the event that the City prepays all remaining Water Installment Payments in full pursuant to Article IX, the City's obligations under this Water Installment Sale Agreement shall thereupon cease and terminate, including but not limited to the City's obligation to pay Water Installment Payments therefor under this Section 4.4; *provided, however*, that the City's obligations to compensate and indemnify the Trustee pursuant to Sections 4.9 and 6.3 shall survive such prepayment. In the event that the City prepays the Water Installment Payments in part but not in whole pursuant to Section 9.2, the principal component of each succeeding Water Installment Payment shall be reduced as provided in such Sections, and the interest component of each remaining Water Installment Payment shall be reduced by the aggregate corresponding amount of interest which would otherwise be payable on the Bonds thereby redeemed pursuant to the applicable provisions of Section 4.01 of the Indenture.

(c) *Rate on Overdue Payments*. In the event the City should fail to make any of the payments required in this Section 4.4 and Section 4.10, the payment in default shall continue as an obligation of the City until the amount in default shall have been fully paid, and the City agrees to pay the same with interest thereon, from the date of default to the date of payment, at the rate of ten percent (10%) per annum.

(d) *Assignment.* The City understands and agrees that all Water Installment Payments have been assigned by the Authority to the Trustee in trust, pursuant to the Indenture, for the benefit of the Owners of the Bonds, and the City hereby assents to such assignment. The Authority hereby directs the City, and the City hereby agrees, to pay to the Trustee at its Trust Office, all amounts payable by the City pursuant to this Section 4.4 and all amounts payable by the City pursuant to Article IX.

Section 4.5. Application of Water System Gross Revenues; Pledge and Application of Water System Net Revenues.

(a) *Deposits Into Water Fund; Transfers to Make Water Installment Payments.* All of the Water System Gross Revenues shall be deposited by the City immediately upon receipt in the Water Fund.

Upon receipt of Water System Gross Revenues, the City shall segregate such amounts as shall be estimated to be required to pay all Operation and Maintenance Costs for the period beginning on such date and ending on the next anticipated date of receipt of Water System Gross Revenues. Amounts remaining on deposit in the Water Fund shall be the Water System Net Revenues.

The City covenants and agrees that all Water System Net Revenues will be held by the City in the Water Fund in trust for the benefit of the Trustee (as assignee of the rights of the Authority hereunder) and the Bond Owners, and for the benefit of the owners of any Water System Parity Obligations.

(b) *Pledge of Water System Net Revenues; Transfers.* All of the Water System Net Revenues are hereby irrevocably pledged, charged and assigned to the punctual payment of the Water Installment Payments and all Water System Parity Obligations and, except as otherwise provided herein, the Water System Net Revenues shall not be used for any other purpose so long as any of the Water Installment Payments remain unpaid. Such pledge, charge and assignment shall constitute a first lien on the Water System Net Revenues for the payment of the Water Installment Payments and all Water System Parity Obligations in accordance with the terms hereof.

On or before each Installment Payment Date, commencing September 15, 2021, the City shall withdraw from the Water Fund:

(i) and transfer to the Trustee for deposit in the Bond Fund (and transfer on a parity to such similar funds or accounts established for the payment of Water System Parity Obligations such amounts as are required for the payment thereof), an amount (other than amounts resulting from the prepayment of the Water Installment Payments pursuant to Article IX and other than amounts required for payment of principal of or interest on any Bonds which have matured or been called for redemption but which have not been presented for payment), equal to the interest component of the Water Installment Payment coming due and payable on the next succeeding Interest Payment Date, and the principal component of the Water Installment Payment coming due and payable on the next succeeding principal payment date, if any, provided that any amounts on deposit in the Bond Fund representing capitalized interest or on deposit in a similar fund created with respect to Water System Parity Obligations, shall be credited against the City's obligation to make such deposits or transfers therein,

(ii) and transfer to the Trustee for deposit in the Reserve Account (and transfer on a parity to such similar funds or accounts established as reserve funds with respect to

Water System Parity Obligations such amounts as are required for the replenishment thereof), the amount, if any, required to increase the amount on deposit in the Reserve Account to the Reserve Requirement,

(iii) and pay all other amounts, including Water Additional Payments, when and as due and payable under this Water Installment Sale Agreement and under any agreements relating to Water System Parity Obligations, and

(iv) and pay all amounts when and as due and payable with respect to any Subordinate Debt.

(c) *Release from Lien.* Following the transfers described in paragraph (b) of this Section 4.5, excess Water System Net Revenues shall be released from the lien of this Water Installment Sale Agreement and shall be available for any lawful purpose of the City.

Section 4.6. Special Obligation of the City; Obligations Absolute. The City's obligation to pay the Water Installment Payments, the Water Additional Payments, any other amounts coming due and payable hereunder and payments with respect to Water System Parity Obligations shall be a special obligation of the City limited solely to the Water System Net Revenues. Under no circumstances shall the City be required to advance moneys derived from any source of income other than the Water System Net Revenues and other sources specifically identified herein for the payment of the Water Installment Payments, the Water Additional Payments or payments with respect to Water System Parity Obligations, nor shall any other funds or property of the City be liable for the payment of the Water Installment Payments, the Water Additional Payments or payments with respect to Water System Parity Obligations and any other amounts coming due and payable hereunder.

The obligations of the City to make the Water Installment Payments, the Water Additional Payments and payments with respect to Water System Parity Obligations from the Water System Net Revenues and to perform and observe the other agreements contained herein and under agreements with respect to Water System Parity Obligations shall be absolute and unconditional and shall not be subject to any defense or any right of setoff, counterclaim or recoupment arising out of any breach of the City, the Authority or the Trustee of any obligation to the City or otherwise with respect to the Water System, whether hereunder or otherwise, or out of indebtedness or liability at any time owing to the City by the Authority or the Trustee. Until such time as all of the Water Installment Payments, all of the Water Additional Payments and all other amounts coming due and payable hereunder shall have been fully paid or prepaid, the City (a) will not suspend or discontinue payment of any Water Installment Payments, Water Additional Payments, payments with respect to Water System Parity Obligations or such other amounts, (b) will perform and observe all other agreements contained in this Water Installment Sale Agreement and under any agreements with respect to Water System Parity Obligations, and (c) will not terminate the Term of this Water Installment Sale Agreement or such agreements with respect to Water System Parity Obligations for any cause, including, without limiting the generality of the foregoing, the occurrence of any acts or circumstances that may constitute failure of consideration, eviction or constructive eviction, destruction of or damage to the Water System, failure to complete the Acquisition and Construction of the Water Improvement Project by the estimated Completion Date thereof, sale of the Water System, the taking by eminent domain of title to or temporary use of any component of the Water System, commercial frustration of purpose, any change in the tax law or other laws of the United States of America or the State or any political subdivision of either thereof or any failure of the Authority 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 Indenture, this Water Installment Sale Agreement or agreements with respect to Water System Parity Obligations.

Nothing contained in this Section 4.6 shall be construed to release the Authority or the Trustee from the performance of any of the agreements on its part contained herein or in the Indenture, and in the event the Authority or the Trustee shall fail to perform any such agreements, the City may institute such action against the Authority or the Trustee as the City may deem necessary to compel performance so long as such action does not abrogate the obligations of the City contained in the preceding paragraph. The City may, however, at the City's own cost and expense and in the City's own name or in the name of the Authority prosecute or defend any action or proceeding or take any other action involving third persons which the City deems reasonably necessary in order to secure or protect the City's rights hereunder, and in such event the Authority hereby agrees to cooperate fully with the City and to take such action necessary to effect the substitution of the City for the Authority in such action or proceeding if the City shall so request.

Section 4.7. Rate Covenant.

(a) The City hereby covenants that it shall fix, prescribe and collect rates, fees and charges for the services and facilities of the Water System for each Fiscal Year, which after allowances for contingencies and error in the estimates, shall produce Water System Gross Revenues at least sufficient to pay the following amounts during such Fiscal Year:

- (i) All current Operation and Maintenance Costs;
- (ii) The Water Installment Payments and all payments required with respect to other Water System Parity Obligations;
- (iii) All payments required with respect to all Subordinate Debt;
- (iv) All payments required for compliance with the terms of the Indenture and hereof, including amounts required to replenish the Reserve Account or to reimburse a draw on a Qualified Reserve Account Credit Instrument;
- (v) All payments to meet any other obligations of the City which are charges, liens or encumbrances upon, or payable from, the Water System Gross Revenues; and
- (vi) any other lawful purposes of the Authority, including, but not limited to, deposits to the Water Rate Stabilization Fund in accordance with paragraph (c) of this Section 4.7.

(b) In addition to the requirements of the foregoing subsection (a) of this Section 4.7, the City hereby covenants that it shall fix, prescribe and collect rates, fees and charges for the services and facilities of the Water System for each Fiscal Year so as to yield Water System Net Revenues during such Fiscal Year equal to at least 1.25 times the Water Installment Payments and all payments required with respect to all Water System Parity Obligations in such Fiscal Year.

The City may make or permit to be made adjustments from time to time in such rates, fees and charges and may make or permit to be made such classification thereof as it deems necessary, but shall not reduce or permit to be reduced such rates, fees and charges below those then in effect unless the Water System Gross Revenues from such reduced rates, fees and charges will at all times be sufficient to meet the requirements of this Section 4.7.

(c) There is hereby created a separate fund to be known as the "Water Rate Stabilization Fund," to be held and maintained by the City. The Water Rate Stabilization Fund is not pledged to secure payment of the Water Installment Payments. Amounts in the Water Rate Stabilization Fund shall be applied solely for the uses and purposes set forth in this subsection (c). The City shall have the right to deposit into the Water Rate Stabilization Fund from time to time any amount of funds which are legally available therefor; provided that deposits for each Fiscal Year may be made until (but not after) one hundred eighty (180) days following the end of such Fiscal Year.

For the purpose of computing the amount of Water System Net Revenues for any Fiscal Year for purposes of the preceding subsection (b), the City shall be permitted to transfer amounts on deposit in the Water Rate Stabilization Fund to the Water Fund, such transfers to be made until (but not after) one hundred eighty (180) days after the end of such Fiscal Year. In addition, the City shall be permitted to withdraw amounts on deposit in the Water Rate Stabilization Fund for any other lawful purpose.

Notwithstanding the foregoing, amounts on deposit in the Water Rate Stabilization Fund and transferred to the Water Fund shall be accounted separately from all other amounts deposited in the Water Fund and, if such amounts shall become available to the City in accordance with subparagraph (vi) of paragraph (a) of this Section 4.7, such amounts may not again be deposited in the Water Rate Stabilization Fund.

Section 4.8. Limitations on Future Obligations Secured by Water System Net Revenues.

(a) *No Obligations Superior to Water Installment Payments.* In order to protect further the availability of the Water System Net Revenues and the security for the Water Installment Payments and any Water System Parity Obligations, the City hereby agrees that the City shall not, so long as the Water Installment Payments are not fully paid or any Water System Parity Obligations are outstanding, issue or incur any obligations payable from Water System Net Revenues superior to the Water Installment Payments or such Water System Parity Obligations.

(b) *Water System Parity Obligations.* The City further covenants that it will not issue or incur any Water System Parity Obligations unless:

(i) The City is not in default under the terms of this Water Installment Sale Agreement or any agreements relating to then existing Water System Parity Obligations;

(ii) (A) Water System Net Revenues, calculated on sound accounting principles, as shown by the books of the City for the latest Fiscal Year or any twelve (12) month period out of the most recent eighteen months selected by the City ending not more than sixty (60) days prior to the adoption of the resolution pursuant to which such Water System Parity Obligations are authorized to be issued or incurred, as shown by the books of the City, shall have amounted to at least 1.25 times the maximum amount of Water Installment Payments and debt service on all Water System Parity Obligations outstanding immediately subsequent to the incurring of such additional obligations coming due and payable in any future Fiscal Year.

Either or both of the following items may be added to such Water System Net Revenues for the purpose of applying the restriction contained in this subsection (b)(ii)(A):

(1) An allowance for revenues to be derived from any additions to or improvements or extensions of the Water System which, during all or any part of such Fiscal Year or the twelve (12) month period out of the most recent eighteen months selected by the City ending not more than sixty (60) days prior to the adoption of the resolution pursuant to which such Water System Parity Obligations are authorized to be issued or incurred, were not in service, in an amount equal to 100% of the estimated additional average annual Water System Net Revenues to be derived from such additions, improvements and extensions, all as shown by the certificate or opinion of a qualified independent consultant employed by the City.

(2) An allowance for any increase in the charges made for service from the Water System which has become effective prior to the incurring of such Water System Parity Obligations but which, during all or any part of such Fiscal Year or the twelve (12) month period out of the most recent eighteen months selected by the City ending not more than sixty (60) days prior to the adoption of the resolution pursuant to which such Water System Parity Obligations are authorized to be issued or incurred, was not in effect, in an amount equal to 100% of the amount by which the Water System Net Revenues would have been increased if such increase in charges had been in effect during the whole of such Fiscal Year or the twelve (12) month period out of the most recent eighteen months selected by the City ending not more than sixty (60) days prior to the adoption of the resolution pursuant to which such Water System Parity Obligations are authorized to be issued or incurred, as shown by the certificate or opinion of a qualified independent consultant employed by the City;

or

(B) Estimated Water System Net Revenues, based on a report of a qualified independent engineer employed by the City or a report of a qualified independent consultant employed by the City, for each of the five (5) Fiscal Years next following the earlier of (i) the end of the period during which interest on the Water System Parity Obligations proposed to be executed is to be capitalized or, if no interest is capitalized the Fiscal Year in which the proposed Water System Parity Obligations are to be issued, or (ii) the date on which substantially all projects financed with the proposed Water System Parity Obligations are expected to commence operations, shall have amounted to at least 1.3 times the maximum amount of Water Installment Payments and debt service on all Water System Parity Obligations outstanding immediately subsequent to the incurring of such additional obligations coming due and payable in any future Fiscal Year.

Any or all of the following items may be added to such Water System Net Revenues for the purpose of applying the restriction contained in this subsection (b)(ii)(B):

(1) An allowance for revenues that are estimated to be derived from any increase in the rates, fees and charges in effect and being charged or from any increase in the rates, fees and charges that have been approved but are not yet in place; and

(2) An allowance for revenues that are estimated to be derived from customers of the Water System anticipated to be served by the additions, betterments or improvements to the Water System to be financed by the proposed Parity Obligation during such five year period; and

(3) An allowance for a reduction in expenses that are estimated to be realized by the City pursuant to a contractual guarantee from the provider of energy efficiency improvements during such five year period.

(iii) A reserve fund may, but shall not be required to be, funded for such Water System Parity Obligations.

(iv) Interest with respect to such Water System Parity Obligations shall be paid on the Installment Payment Dates.

(v) Principal with respect to such Water System Parity Obligations shall be paid on Match 15.

Notwithstanding the foregoing provisions, there shall be no limitations on the ability of the City to issue or incur Water System Parity Obligations at any time to refund the Water Installment Payments or Water System Parity Obligations for debt service savings.

(c) *Subordinate Debt.* There shall be no limitations on the ability of the City to issue or incur Subordinate Debt so long as the City is not in default under the terms of this Water Installment Sale Agreement, any agreements relating to then existing Water System Parity Obligations or any agreement relating to then existing Subordinate Debt.

(d) *Calculating Debt Service on Variable Rate Debt.* For all purposes, variable rate indebtedness shall be assumed to bear interest at the highest of: (i) the actual rate on the date of calculation, or if the indebtedness is not yet outstanding, the initial rate (if established and binding); (ii) if the indebtedness has been outstanding for at least twelve months, the average rate over the twelve months immediately preceding the date of calculation; or (iii) (A) if interest on the indebtedness is excludable from gross income under the applicable provisions of the Code, the most recently published *Bond Buyer "Revenue Bond Index"* (or comparable index if no longer published), or (B) if interest is not so excludable, the interest rate on direct U.S. Treasury Obligations with comparable maturities plus 50 basis points; *provided, however*, that for purposes of any rate covenant measuring actual debt service coverage during a test period, variable rate indebtedness shall be deemed to bear interest at the actual rate per annum applicable during the test period.

(e) *Calculating Debt Service on Swaps.* If any interest rate swap agreement under which the City is obligated to make payments based on a fixed interest rate is in place with respect to variable rate Water System Parity Obligations, the amount payable by the City with respect to such variable rate Water System Parity Obligations shall be assumed to be the fixed rate payable under such interest rate swap agreement.

Section 4.9. Water Additional Payments. In addition to the Water Installment Payments, the City shall pay when due all costs and expenses incurred by the Authority to comply with the provisions of the Indenture, including without limitation all Costs of Issuance (to the extent not paid from amounts on deposit in the Costs of Issuance Fund, the Water Acquisitions Project Fund or the Water Improvement Project Fund), and shall pay to the Trustee upon request therefor all compensation for fees due to the Trustee and all of its costs and expenses payable as

a result of the performance of and compliance with its duties hereunder or under the Indenture or any related documents, together with all amounts required to indemnify the Trustee pursuant to Section 6.3 hereof or Section 8.12 of the Indenture, and all costs and expenses of attorneys, auditors, engineers and accountants. The rights of the Trustee and the obligations of the City under this Section 4.9 shall survive the termination of this Water Installment Sale Agreement.

Section 4.10. Payments to Reserve Account. In addition to the Water Installment Payments, the City shall pay to the Trustee, from Water System Net Revenues, such amounts as shall be required to replenish the Reserve Account or to reimburse a draw on a Qualified Reserve Account Credit Instrument in the event of a draw therefrom or a valuation determines that a deficiency exists therein, all in accordance with the Indenture.

Section 4.11. Payment of Rebatable Amounts. The City agrees to furnish all information to, and cooperate fully with, the Authority and its officers, employees, agents and attorneys, in order to assure compliance with the provisions of Section 6.07(b) of the Indenture. In the event that the Authority shall determine, pursuant to Section 6.07(b) of the Indenture, that any amounts are due and payable to the United States of America thereunder and that neither the Authority nor the Trustee has on deposit an amount of available moneys (excluding moneys on deposit in the funds and accounts established for the payment of the principal of or interest or redemption premium, if any, on the Bonds) to make such payment, the Authority shall promptly notify the City of such fact. Upon receipt of any such notice, the City shall promptly pay to the Trustee from any source of legally available funds, the amounts determined by the Authority to be due and payable to the United States of America under such Section 6.07(b).

ARTICLE V

MAINTENANCE, TAXES, INSURANCE AND OTHER MATTERS

Section 5.1. Maintenance, Utilities, Taxes and Assessments. Throughout the Term of this Water Installment Sale Agreement, all improvement, repair and maintenance of the Water System shall be the responsibility of the City, and the City shall pay for or otherwise arrange for the payment of all utility services supplied to the Water System, which may include, without limitation, janitor service, security, power, gas, telephone, light, heating, water and all other utility services, and shall pay for or otherwise arrange for the payment of the cost of the repair and replacement of the Water System resulting from ordinary wear and tear.

The City shall also pay or cause to be paid all taxes and assessments of any type or nature, if any, charged to the Authority or the City affecting any Water System or the respective interests or estates therein; *provided, however*, that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the City shall be obligated to pay only such installments as are required to be paid during the Term of this Water Installment Sale Agreement as and when the same become due.

The City may, at the City's expense and in its name, in good faith contest any such taxes, assessments, utility and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless the Authority shall notify the City that, in its opinion, by nonpayment of any such items, the interest of the Authority hereunder or under the Indenture will be materially adversely affected, in which event the City shall promptly pay such taxes, assessments or charges or provide the Authority with full security against any loss which may result from nonpayment, in form satisfactory to the Authority.

Section 5.2. Operation of Water System. The City covenants and agrees to operate or cause to be operated the Water System in an efficient and economical manner and to operate, maintain and preserve or caused to be operated, maintained and preserved the Water System in good repair and working order. The City covenants that, in order to fully preserve and protect the priority and security of the Bonds, the City shall pay from the Water System Gross Revenues and discharge all lawful claims for labor, materials and supplies furnished for or in connection with the Water System which, if unpaid, may become a lien or charge upon the Water System Gross Revenues or the Water System Net Revenues prior or superior to the lien granted hereunder, or which may otherwise impair the ability of the City to pay the Water Installment Payments in accordance herewith.

Section 5.3. Insurance. The City shall maintain or cause to be maintained, throughout the Term of this Water Installment Sale Agreement, but only if and to the extent available at reasonable cost from reputable insurers, liability and casualty insurance in such amounts and against such risks as shall be appropriate for water systems of like size and with similar facilities as the Water System. Such insurance may be maintained as part of or in conjunction with any other insurance carried by the City and may be maintained in whole or in part in the form of self-insurance by the City or in the form of the participation by the City in a joint powers agency or other program providing pooled insurance. All amounts collected from insurance against accident to or destruction of any portion of the Water System shall be used to repair, rebuild or replace such damaged or destroyed portion of the Water System. The proceeds of liability insurance shall be applied toward the extinguishment or satisfaction of the liability with respect to which such proceeds shall have been paid.

Section 5.4. Eminent Domain. Any amounts received as awards as a result of the taking of all or any part of the Water System by the lawful exercise of eminent domain, at the election of the City (evidenced by a Written Certificate of the City filed with the Trustee and the Authority) shall either (a) be used for the acquisition or construction of improvements and extension of the Water System in replacement of the condemned portions thereof, or (b) applied as a credit against the City's obligation to make the Water Installment Payments and payments with respect to any Water System Parity Obligations in accordance with written instructions of the City filed with the Trustee.

Section 5.5. Records and Accounts. The City shall keep proper books of record and accounts of the Water System, separate from all other records and accounts, in which complete and correct entries shall be made of all transactions relating to the Water System. Said books shall, upon prior request, be subject to the reasonable inspection by the Owners of not less than ten percent (10%) in aggregate principal amount of the Outstanding Bonds, or their representatives authorized in writing. The City shall cause the books and accounts of the Water System to be audited annually by an Independent Accountant, not more than one hundred eighty (180) days after the close of each Fiscal Year, and shall make a copy of such report available for inspection by the Bond Owners at the office of the City.

Section 5.6. Continuing Disclosure. The City hereby covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate. Notwithstanding any other provision of this Water Installment Sale Agreement, failure of the City to comply with the Continuing Disclosure Certificate shall not constitute an Event of Default hereunder; *provided, however*, that any Participating Underwriter or any Owner or beneficial owner of the Bonds may take such actions as may be necessary and appropriate to compel performance by the City of its obligations under this Section 5.6, including seeking mandate or specific performance by court order.

ARTICLE VI

DISCLAIMER OF WARRANTIES; ACCESS

Section 6.1. Disclaimer of Warranties. The Authority and the Trustee make no warranty or representation, 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 City of the Water System and the Water Improvement Project, or any other representation or warranty with respect to the Water Project. In no event shall the Authority or the Trustee be liable for incidental, indirect, special or consequential damages in connection with or arising out of this Water Installment Sale Agreement or the Indenture for the existence, furnishing, functioning or City's use of the Water System and the Water Improvement Project.

Section 6.2. Access to the Water System. The City agrees that the Authority and the Trustee, and any duly authorized representative thereof, shall have the right at all reasonable times to enter upon and to examine and inspect the Water System. The City further agrees that the Authority and the Trustee, and any duly authorized representative thereof, shall have such rights of access to the Water System as may be reasonably necessary to cause the proper maintenance of the Water System in the event of failure by the City to perform its obligations hereunder.

Section 6.3. Release and Indemnification Covenants. The City shall and hereby agrees to indemnify and save the Authority and the Trustee and their respective officers, agents, successors and assigns harmless from and against all claims, losses and damages, including legal fees and expenses, arising out of (a) the use, maintenance, condition or management of, or from any work or thing done on the Water System by the City, (b) any breach or default on the part of the City in the performance of any of its obligations under this Water Installment Sale Agreement, (c) any negligence or willful misconduct of the City or of any of its agents, contractors, servants, employees or licensees with respect to the Water System, (d) any act or negligence of any sublessee of the City with respect to the Water System, (e) the Acquisition and Construction of the Water Improvement Project or the authorization of payment of the Water Improvement Project Costs, (f) the performance by the Trustee of its duties and obligations under the Indenture, including any duties referred to in Section 8.12 of the Indenture, (g) the presence on, under or about, or release from, the Water System of any substance, material or waste which is, or which becomes, regulated or classified as hazardous or toxic under State, federal or local law, or (h) the offer, sale and issuance of the Bonds. No indemnification is made under this Section 6.3 or elsewhere in this Water Installment Sale Agreement for adjudicated willful misconduct or negligence by the Authority or the Trustee, or their respective officers, employees, successors or assigns. The rights of the Trustee and the obligations of the City under this Section 6.3 shall survive the termination of this Water Installment Sale Agreement and the resignation or removal of the Trustee.

Section 6.4. Non-Liability of Authority for Water System Obligations. The Authority and its successor and assigns shall have no obligation and shall incur no liabilities or debts whatsoever for the obligations, liabilities and debts of the City incurred in connection with the Water System.

ARTICLE VII

ASSIGNMENT, SALE AND AMENDMENT

Section 7.1. Assignment by the City. The obligations of the City under this Water Installment Sale Agreement may not be assigned by the City.

Section 7.2. Sale or Other Disposition of Water System. Except as provided herein, the City covenants that the Water System shall not be encumbered, sold, leased, pledged, any charge placed thereon, or otherwise disposed of, as a whole or substantially as a whole; *provided, however*, the City may lease the Water System to a related public entity that (a) assumes all liabilities of the City with respect to the Water System, and (b) covenants to maintain Water System Gross Revenues sufficient to operate and maintain the Water System and duly provide for the punctual payment of all obligations assumed by such related public entity in connection with such lease including, but not limited to, the Water Installment Payments hereunder. Neither the Water System Net Revenues nor any other funds pledged or otherwise made available to secure payment of the Water Installment Payments shall be mortgaged, encumbered, sold, leased, pledged, any charge placed thereon, or disposed or used except as authorized by the terms of this Water Installment Sale Agreement. The City shall not enter into any agreement which impairs the operation of the Water System or any part of it necessary to secure adequate Water System Net Revenues to pay the Water Installment Payments, or which otherwise would impair the rights of the Bond Owners and the owners of any Water System Parity Obligations with respect to the Water System Net Revenues. If any substantial part of the Water System shall be sold, the payment therefor shall either (a) be used for the acquisition or construction of improvements, extensions or replacements of Water System, or (b) to the extent not so used, be paid to the Trustee to be applied to prepay the Water Installment Payments or any Water System Parity Obligations, in accordance with written instructions of the City filed with the Trustee.

Section 7.3. Amendment of Installment Sale Agreement. The City and the Authority shall have the right to modify or amend this Water Installment Sale Agreement without the consent of any of the Bond Owners or any of the owners of Water System Parity Obligations, but only if such amendment or modification does not cause interest represented by the Bonds to be includable in gross income for federal income tax purposes in the opinion of Bond Counsel, and only if such amendment or modification does not materially adversely affect the interests of the Owners of the Bonds or the owners of any Water System Parity Obligations in the opinion of Bond Counsel, and only if such amendment or modification is for any one or more of the following purposes:

(a) to provide for the issuance of Water System Parity Obligations pursuant to Section 4.8;

(b) to add to the covenants and agreements of the City contained in this Water Installment Sale Agreement, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or power herein reserved to or conferred upon the City;

(c) to cure any ambiguity, or to cure, correct or supplement any defective provision contained herein, or in any other respect whatsoever as the Authority and the City may deem necessary or desirable; or

(d) to amend any provision thereof for the purpose of complying with the applicable requirements of the Tax Code.

ARTICLE VIII
EVENTS OF DEFAULT

Section 8.1. Events of Default Defined. The following events shall be Events of Default hereunder:

(a) Failure by the City to pay any Water Installment Payment when and as the same become due and payable hereunder.

(b) Failure by the City to pay any Water Additional Payment when due and payable hereunder, and the continuation of such failure for a period of ten (10) days.

(c) Failure by the City to observe and perform any covenant, condition or agreement on its part to be observed or performed, other than as referred to in the preceding clauses (a) or (b), for a period of thirty (30) days after written notice specifying such failure and requesting that it be remedied has been given to the City by the Authority or the Trustee; *provided, however*, that if the City shall notify the Authority and the Trustee that in its reasonable opinion the failure stated in the notice can be corrected, but not within such thirty (30) day period, such failure shall not constitute an Event of Default hereunder if the City shall commence to cure such failure within such thirty (30) day period and thereafter diligently and in good faith cure such failure in a reasonable period of time.

(d) The filing by the City of a voluntary petition in bankruptcy, or failure by the City promptly to lift any execution, garnishment or attachment, or adjudication of the City as a bankrupt, or assignment by the City for the benefit of creditors, or the entry by the City into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of a petition applicable to the City in any proceedings instituted under the provisions of the Federal Bankruptcy Code, as amended, or under any similar acts which may hereafter be enacted.

(e) The occurrence and continuation of any payment event of default under and as defined in the instruments authorizing the issuance of any Water System Parity Obligations.

Section 8.2. Remedies on Default. Whenever any Event of Default shall have happened and be continuing, the Trustee as assignee of the Authority shall have the right, at its option and without any further demand or notice, but subject in all respects to the provisions of Article VII of the Indenture, to:

(a) declare all principal components of the unpaid Water Installment Payments, together with accrued interest thereon at the net effective rate of interest per annum then borne by the Outstanding Bonds from the immediately preceding Interest Payment Date on which payment was made, to be immediately due and payable, whereupon the same shall immediately become due and payable;

(b) take whatever action at law or in equity may appear necessary or desirable to collect the Water Installment Payments then due or thereafter to become due during the Term of this Water Installment Sale Agreement, or enforce performance and observance of any obligation, agreement or covenant of the City under this Water Installment Sale Agreement; and

(c) as a matter of right, in connection with the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and the Bond Owners hereunder, cause

the appointment of a receiver or receivers of the Water System Gross Revenues and other amounts pledged hereunder, with such powers as the court making such appointment shall confer.

The provisions of the preceding clause (a), however, are subject to the condition that if, at any time after the principal components of the unpaid Water Installment Payments shall have been so declared due and payable pursuant to the preceding clause (a), and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the City shall deposit with the Trustee a sum sufficient to pay all principal components of the Water Installment Payments coming due prior to such declaration and all matured interest components (if any) of the Water Installment Payments, with interest on such overdue principal and interest components calculated at the net effective rate of interest per annum then borne by the Outstanding Bonds, and the reasonable expenses of the Trustee (including any fees and expenses of its attorneys), and any and all other defaults known to the Trustee (other than in the payment of the principal and interest components of the Water Installment Payments due and payable solely by reason of such declaration) shall have been made good, then, and in every such case, with the written consent of the Trustee, shall rescind and annul such declaration and its consequences. However, 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. As provided in Section 8.6, the Trustee shall be required to exercise the remedies provided herein in accordance with the Indenture.

Section 8.3. No Remedy Exclusive. No remedy herein conferred upon or reserved to the Authority is intended to be exclusive and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Water Installment Sale Agreement or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Authority to exercise any remedy reserved to it in this Article VIII it shall not be necessary to give any notice, other than such notice as may be required in this Article VIII or by law.

Section 8.4. Agreement to Pay Attorneys' Fees and Expenses. In the event either party to this Water Installment Sale Agreement shall default under any of the provisions hereof and the nondefaulting party, the Trustee or the Owner of any Bonds should employ attorneys or incur other expenses for the collection of moneys or the enforcement or performance or observance of any obligation or agreement on the part of the defaulting party herein contained, the defaulting party agrees that it will on demand therefor pay to the nondefaulting party, the Trustee or such Owner, as the case may be, the reasonable fees of such attorneys and such other expenses so incurred.

Section 8.5. No Additional Waiver Implied by One Waiver. In the event any agreement contained in this Water Installment Sale Agreement shall be breached by either party and thereafter waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder.

Section 8.6. Trustee and Bond Owners to Exercise Rights. Such rights and remedies as are given to the Authority under this Article VIII have been assigned by the Authority to the Trustee under the Indenture, to which assignment the City hereby consents. Such rights and remedies shall be exercised by the Trustee and the Owners of the Bonds as provided in the Indenture.

Section 8.7. Rights of the Owners of Water System Parity Obligations. Notwithstanding anything in this Article VIII to the contrary, it is hereby acknowledged and agreed that the rights of the Trustee and the Bond Owners hereunder in and to the Water System Net Revenues and the Water System shall be exercised on a parity and proportionate basis with the rights of the owners of any Water System Parity Obligations and any fiduciary acting for the benefit of such owners. The provisions of this Article VIII, and the provisions of any instruments authorizing the issuance of any Water System Parity Obligations, shall be construed in accordance with the foregoing sentence.

ARTICLE IX

PREPAYMENT OF WATER INSTALLMENT PAYMENTS

Section 9.1. Security Deposit. Notwithstanding any other provision of this Water Installment Sale Agreement, the City may on any date secure the payment of Water Installment Payments in whole or in part by irrevocably depositing with the Trustee or any other fiduciary an amount of cash which, together with amounts on deposit in the Bond Fund, the accounts therein and the cash on deposit in the Reserve Account, is either (a) sufficient to pay all such Water Installment Payments, including the principal and interest components thereof, in accordance with the Water Installment Payment schedule set forth in Exhibit A, or (b) invested in whole or in part in Federal Securities in such amount as will, in the written opinion of an Independent Accountant, together with interest to accrue thereon and together with any cash which is so deposited, be fully sufficient to pay all such Water Installment Payments when due pursuant to Section 4.4(a) or when due on any optional prepayment date pursuant to Section 9.2, as the City shall instruct at the time of said deposit. In the event of a security deposit pursuant to this Section 9.1 with respect to all of the Water Installment Payments, all obligations of the City under this Water Installment Sale Agreement, and all security provided by this Water Installment Sale Agreement for said obligations, shall cease and terminate, excepting only the obligation of the City to make, or cause to be made, all of such Water Installment Payments from such security deposit, and the obligation of the City to compensate and indemnify the Trustee pursuant to Sections 4.9 and 6.3. Said security deposit shall be deemed to be and shall constitute a special fund for the payment of Water Installment Payments in accordance with the provisions of this Water Installment Sale Agreement.

Section 9.2. Optional Prepayment. The City may exercise its option to prepay the principal components of the Water Installment Payments in whole, or in part in integral multiples of \$5,000, on any date on or after March 25, ____, by paying a prepayment price equal to the aggregate principal components of the Water Installment Payments to be prepaid, together with the interest component of the Water Installment Payment required to be paid on or accrued to such date. Such prepayment price shall be deposited by the Trustee in the Redemption Fund or in another trustee-held fund to be applied to the redemption of Bonds pursuant to Section 4.01(b) of the Indenture. The City shall give the Trustee written notice of its intention to exercise its option not less than forty-five (45) days in advance of the date of exercise.

Section 9.3. Credit for Amounts on Deposit. In the event of prepayment of the principal components of the Water Installment Payments in full under this Article IX, such that the Indenture shall be discharged by its terms as a result of such prepayment, and upon payment in full of all Water Additional Payments and other amounts then due and payable hereunder, all available amounts then on deposit in the funds and accounts established under the Indenture shall be credited towards the amounts then required to be so prepaid.

ARTICLE X
MISCELLANEOUS

Section 10.1. Further Assurances. The City agrees that it will execute and deliver any and all such further agreements, instruments, financing statements or other assurances as may be reasonably necessary or requested by the Authority or the Trustee to carry out the intention or to facilitate the performance of this Water Installment Sale Agreement, including, without limitation, to perfect and continue the security interests herein intended to be created.

Section 10.2. Notices. Any notice, request, complaint, demand or other communication under this Water Installment Sale Agreement shall be given by first class mail or personal delivery to the party entitled thereto at its address set forth below, or by telecopy, telex or other form of telecommunication, at its number set forth below. Notice shall be effective either (a) upon transmission by telecopy, telex or other form of telecommunication, (b) 48 hours after deposit in the United States mail, postage prepaid, or (c) in the case of personal delivery to any person, upon actual receipt.

If to the Authority:	Coalinga Public Financing Authority c/o City of Coalinga 155 West Durian Coalinga, CA 93210 Attention: Finance Director Phone: (661) 792-3091
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If to the City:	City of Coalinga 155 West Durian Coalinga, CA 93210 Attention: Finance Director Phone: (661) 792-3091
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If to the Trustee:	Wells Fargo Bank, National Association 333 South Grand Avenue, Fifth Floor Los Angeles, CA 90071 Attention: Corporate Trust Phone: (213) 253-7517
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The Authority, the City or the Trustee may, by written notice to the other parties, from time to time modify the address or number to which communications are to be given hereunder.

Section 10.3. Third Party Beneficiary. The Trustee shall be and is hereby made a third party beneficiary hereunder with all rights of a third party beneficiary.

Section 10.4. Governing Law. This Water Installment Sale Agreement shall be construed in accordance with and governed by the laws of the State.

Section 10.5. Binding Effect. This Water Installment Sale Agreement shall inure to the benefit of and shall be binding upon the Authority and the City, and their respective successors and assigns, subject, however, to the limitations contained herein.

Section 10.6. Severability of Invalid Provisions. If any one or more of the provisions contained in this Water Installment Sale Agreement shall for any reason be held to be invalid,

illegal or unenforceable in any respect, then such provision or provisions shall be deemed severable from the remaining provisions contained in this Water Installment Sale Agreement and such invalidity, illegality or unenforceability shall not affect any other provision of this Water Installment Sale Agreement, and this Water Installment Sale Agreement shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein. The Authority and the City each hereby declares that it would have entered into this Water Installment Sale Agreement and each and every other Section, paragraph, sentence, clause or phrase hereof irrespective of the fact that any one or more Sections, paragraphs, sentences, clauses or phrases of this Water Installment Sale Agreement may be held illegal, invalid or unenforceable.

Section 10.7. Article and Section Headings and References. The headings or titles of the several Articles and Sections hereof, and any table of contents appended to copies hereof, shall be solely for convenience of reference and shall not affect the meaning, construction or effect of this Water Installment Sale Agreement. All references herein to "Articles," "Sections" and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Water Installment Sale Agreement; the words "herein," "hereof," "hereby," "hereunder" and other words of similar import refer to this Water Installment Sale Agreement as a whole and not to any particular Article, Section or subdivision hereof; and words of the masculine gender shall mean and include words of the feminine and neuter genders.

Section 10.8. Execution of Counterparts. This Water Installment Sale Agreement may be executed in any number of counterparts, each of which shall for all purposes be deemed to be an original and all of which shall together constitute but one and the same instrument.

Section 10.9. Waiver of Personal Liability. No member of the City Council, officer, agent or employee of the City shall be individually or personally liable for the payment of Water Installment Payments or Water Additional Payments or be subject to any personal liability or accountability by reason of this Water Installment Sale Agreement; but nothing herein contained shall relieve any such member of the City Council, officer, agent or employee from the performance of any official duty provided by law or by this Water Installment Sale Agreement.

Section 10.10. Limitation of Rights to Parties and Bond Owners. Nothing in this Water Installment Sale Agreement expressed or implied is intended or shall be construed to give to any person other than the Authority, the Trustee, the City and the Owners of the Bonds, any legal or equitable right, remedy or claim under or in respect of this Water Installment Sale Agreement or any covenant, condition or provision therein or herein contained; and all such covenants, conditions and provisions are and shall be held to be for the sole and exclusive benefit of the Authority, the Trustee, the City and the Owners of the Bonds.

Section 10.11. Captions. The captions or headings in this Water Installment Sale Agreement are for convenience only and in no way define, limit or describe the scope or intent of any provisions or Section of this Water Installment Sale Agreement.

IN WITNESS WHEREOF, the Authority and the City have caused this Water Installment Sale Agreement to be executed in their respective names by their duly authorized officers, all as of the date first above written.

COALINGA PUBLIC FINANCING
AUTHORITY, as Purchaser

By _____
Executive Director

Attest:

Secretary

CITY OF COALINGA, as Seller

By _____
City Manager

Attest:

City Clerk

EXHIBIT A

SCHEDULE OF INSTALLMENT PAYMENTS

Installment Payment Date	Allocable to the Series A Bonds			Allocable to the Series B Bonds			Total Installment Payment
	Principal Component	Interest Component	Total	Principal Component	Interest Component	Total	

EXHIBIT B

DESCRIPTION OF THE WATER SYSTEM

EXHIBIT C

DESCRIPTION OF THE WATER IMPROVEMENT PROJECT