
INSTALLMENT PURCHASE AGREEMENT

by and between

**CITY OF FILLMORE,
as City**

and

FILLMORE PUBLIC FINANCING AUTHORITY

Dated as of November 1, 2010

Relating to

**§ _____
FILLMORE PUBLIC FINANCING AUTHORITY
REVENUE BONDS
(WATER SYSTEM REFUNDING)
SERIES 2010**

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INSTALLMENT PURCHASE AGREEMENT

This INSTALLMENT PURCHASE AGREEMENT, made and entered into as of November 1, 2010, by and between the CITY OF FILLMORE, a city and municipal corporation duly organized and existing under and by virtue of the laws of the State of California (the "City"), and the FILLMORE PUBLIC FINANCING AUTHORITY, a joint powers authority duly organized and existing under and by virtue of the laws of the State of California (the "Authority"):

WITNESSETH:

WHEREAS, the City owns and operates that certain water system referred to herein as the "Enterprise"; and

WHEREAS, the Authority is a Joint Powers Authority (a public body, corporate and politic) duly created, established and authorized to transact business and exercise its powers, all under and pursuant to the Joint Exercise of Powers Act (Articles 1 through 4 of Chapter 5, Division 7, Title 1 of the California Government Code) (the "Act") and the powers of such Authority include the power to issue bonds for any of its corporate purposes; and

WHEREAS, the City has heretofore caused the execution and delivery of its \$8,065,000 City of Fillmore Certificates of Participation (2002 Water System Refinancing Project) (the "2002 Certificates") for the purpose of refinancing improvements to the Enterprise (the "Project"); and

WHEREAS, the City has determined that it is in the best interests of the City to refund and defease the 2002 Certificates; and

WHEREAS, in order to refund and defease the 2002 Certificates, the Authority has determined to issue its Revenue Bonds (Water System Refunding), Series 2010, in the aggregate principal amount of \$_____ (the "Bonds"), all pursuant to and secured by the Trust Agreement dated as of November 1, 2010 (the "Trust Agreement") by and among the Authority, the City and Union Bank N.A., as Trustee, in the manner provided therein;

WHEREAS, the City and the Authority have determined that it is necessary and desirable to enter into this Installment Purchase Agreement (this "Installment Purchase Agreement"), pursuant to which the City is to sell to the Authority the Project and simultaneously purchase from the Authority the Project and to make Installment Payments equal in time and amount to the debt service on the Bonds allocable to the Installment Purchase Agreement; and

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

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

**ARTICLE I
DEFINITIONS**

Section 1.1. Definitions. Unless the context otherwise requires, the capitalized terms used herein shall for all purposes hereof and of any amendment hereof or supplement hereto and of any report or other document mentioned herein or therein have the meanings defined herein and if not defined herein, shall have the meanings ascribed thereto in the Trust Agreement.

**ARTICLE II
REPRESENTATIONS AND WARRANTIES;
OPINIONS OF COUNSEL**

Section 2.1. Representations by the City. The City makes the following representations to the Authority and the Insurer:

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

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

(c) This Agreement has been duly authorized, executed and delivered by the City, and constitutes the legal, valid and binding agreement of the City, enforceable against the City in accordance with its terms.

(d) The execution and delivery of this Agreement, the consummation of the transactions herein contemplated 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 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 or its facilities 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 this Agreement or the financial condition, assets, facilities or operations of the Enterprise.

(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 this Agreement or the consummation of any transaction herein and therein 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 Enterprise 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 this Agreement or upon the financial condition or operation of

the Enterprise, 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 this Agreement, or the financial condition or operations of the Enterprise.

(g) The City has heretofore established a fund or funds into which the City deposits and will continue to deposit all Gross Revenues, and which the City will maintain throughout the Term of this Agreement.

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

Section 2.2. Representations and Warranties by the Authority. The Authority makes the following representations and warranties:

(a) The Authority is a joint powers authority, duly organized and existing under the laws of the State. The Authority has the power to enter into the transactions contemplated by this 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 this Agreement and the Trust Agreement.

(b) To finance the Authority's purchase of the Enterprise, the Reserve Fund deposit required by Section 3.06 of the Trust Agreement and the Costs of Issuance, the Authority will issue its Bonds, which will mature, bear interest and be subject to redemption as set forth in the Trust Agreement.

(c) The Bonds will be issued under and secured by the Trust Agreement, and pursuant thereto, certain of the Authority's interests in this Agreement have been assigned to the Trustee as security for payment 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 SALE AND PURCHASE OF THE PROJECT

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

Section 3.2. Sale and Purchase of the Project. The City hereby transfers and conveys the Project to the Authority on the Delivery Date and the Authority hereby receives and accepts the Project. As consideration for the City's agreement to make the Installment Payments

in accordance with Section 4.2 hereof, the Authority hereby agrees to sell, and the City hereby agrees to purchase, the Project. All right, title and interest in the Project shall vest in the City immediately. Such vesting shall occur without further action by the Authority or the City; and the Authority shall, if requested by the City or if necessary to assure such automatic vesting, deliver any and all documents required to assure such vesting.

Section 3.3. Prepayment of 2002 Installment Sale Agreement. The deposit of proceeds of the Bonds in the Refunding Fund for transfer for deposit by the 2002 Escrow Bank under the 2002 Escrow Agreement shall effect the prepayment of the 2002 Installment Sale Agreement.

ARTICLE IV SERIES 2010 INSTALLMENT PAYMENTS

Section 4.1. Term. The Term of this Agreement shall commence on the Closing Date, and shall end on the date on which the City shall have paid all of the Installment Payments and all other amounts due and payable hereunder and under the Trust Agreement. The provisions of this Section 4.2 are subject in all respects to any other provisions of this Agreement relating to the termination hereof with respect to the Wastewater System or any portion thereof.

Section 4.2. Series 2010 Installment Payments.

(a) Obligation to Pay. The City agrees to pay to the Authority, its successors and assigns, but solely from the Net Revenues and other funds pledged hereunder, the Purchase Price, together with interest on the unpaid principal balance, payable in Installment Payments coming due and payable in the respective amounts and on the respective Installment Payment Dates specified in Exhibit A hereto. The Installment Payments shall be paid by the City to the Trustee, as assignee of the Authority pursuant to the Trust Agreement, in the amounts and at the times as set forth in Section 4.5(b). The City shall receive a credit against any Installment Payment due hereunder to the extent of any monies on deposit in the Bond Service Fund on the applicable Installment Payment Date.

(b) Effect of Prepayment. In the event that the City prepays all remaining Installment Payments in full pursuant to Article IX, the City's obligations under this Agreement shall thereupon cease and terminate, including but not limited to the City's obligation to pay Installment Payments therefor under this Section 4.2; provided, however, that the City's obligations to compensate and indemnify the Trustee pursuant to Sections 4.10 and 6.3 shall survive such prepayment. In the event that the City prepays the Installment Payments in part but not in whole pursuant to Section 9.1, the principal component of each succeeding Installment Payment shall be reduced in inverse order of Installment Payment Date or pro rata among such dates, as determined by the City, and the interest component of each remaining Installment Payment shall be reduced by the aggregate corresponding amount of interest which would otherwise be payable on the Bonds thereby redeemed pursuant to Section 4.02 of the Trust Agreement. In any event, the remaining Installment Payments shall equal in time and amount the remaining debt service on the Bonds.

(c) Rate on Overdue Payments. In the event the City should fail to make any of the payments required in this Section 4.2 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 a rate of interest per annum equal to the rate borne by the Outstanding Bonds or at such other rate as maybe provided in this Agreement and the Trust Agreement.

(d) Assignment. The City understands and agrees that all Installment Payments have been assigned by the Authority to the Trustee in trust, pursuant to the Trust Agreement, 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 Office, all amounts payable by the City pursuant to this Section 4.2 and all amounts payable by the City pursuant to Article IX.

Section 4.3. Special Obligation of the City; Obligations Absolute. The City's obligation to pay the Installment Payments, the Additional Payments and any other amounts coming due and payable hereunder shall be a special obligation of the City limited solely to the Net Revenues. Under no circumstances shall the City be required to advance moneys derived from any source of income other than the Net Revenues and other sources specifically identified herein for the payment of the Installment Payments and the Additional Payments, nor shall any other funds or property of the City be liable for the payment of the Installment Payments and the Additional Payments and any other amounts coming due and payable hereunder.

The obligations of the City to make the Installment Payments and the Additional Payments from the Net Revenues and to perform and observe the other agreements contained herein 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 Enterprise, 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 Installment Payments, all of the 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 Installment Payments, Additional Payments or such other amounts, (b) will perform and observe all other agreements contained in this Agreement, and (c) will not terminate this Agreement 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 Enterprise, the taking by eminent domain of title to or temporary use of any component of the Enterprise, commercial frustration of purpose, any change in the tax or law 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 Trust Agreement or this Agreement.

Nothing contained in this Section 4.3 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 Trust Agreement, 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.

ARTICLE V SECURITY

Section 5.1. Pledge and Application of Net Revenues.

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

(b) Deposits Into Funds; Transfers to Make Installment Payments. All of the Gross Revenues shall be deposited by the City immediately upon receipt in the Water Fund, which fund is hereby established and held by the Treasurer of City. The City shall use funds in the Water Fund to pay Operation and Maintenance Costs as such payments become due and payable. The City covenants and agrees that all 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 Parity Obligations. On or before each Installment Payment Date, the City shall withdraw from the Water Fund, and transfer to the Trustee for deposit in the Revenue Fund, and to the trustee for any Parity Obligations, as applicable, an amount of Net Revenues which, together with the balance then on deposit in the Bond Service Fund (other than amounts resulting from the prepayment of the Installment Payments pursuant to Article IX and other than amounts required for payment of principal of or interest on any Bonds and Parity Obligations which have matured or been called for redemption but which have not been presented for payment), is equal to the aggregate amount of the Installment Payments coming due and payable on the next succeeding Interest Payment Date, together with any amounts required to restore the balance in the Reserve Fund to the Reserve Requirement. In support of the foregoing, the City shall set aside each month equal amounts necessary to make such transfers on or before each Installment Payment Date.

The City shall manage, conserve and apply the Gross Revenues on deposit in the Water Fund in such a manner that all deposits required to be made pursuant to this subsection (b) will be made at the times and in the amounts so required. Subject to the foregoing sentence, so long as no Event of Default shall have occurred and be continuing hereunder, the City may use and apply Net Revenues in the Water Fund for (i) the payment of Additional Payments, (ii) the payment of any subordinate obligations or any unsecured obligations, (iii) the acquisition and construction of extensions and betterments to the Enterprise, (iv) the prepayment of any obligations of the City relating to the Enterprise, (v) transfers from the Water Fund to the General Fund of the City for in-lieu fees and administrative costs, (vi) transfers to the Rate Stabilization Fund, or (vii) any other lawful purposes of the Water Fund. All monies in the Water Fund may be invested by the City from time to time in any Permitted Investment.

Section 5.2. Rates and Charges. The City 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 at least sufficient, after making allowances for contingencies and error in the estimates, to yield Gross Revenues sufficient to pay the following amounts in the following order of priority:

(a) All Operation and Maintenance Costs estimated by the City to become due and payable in such Fiscal Year;

(b) All Installment Payments and payments of principal of and interest on any Parity Obligations as they become due and payable during such Fiscal Year, without preference or priority, except to the extent Installment Payments or interest on any Parity Obligations are payable from proceeds of the Bonds or Parity Obligations deposited for such purpose;

(c) All amounts, if any, required to restore the balance in the Reserve Fund and any reserve fund securing any Parity Obligations to the full amount of the Reserve Requirement and the reserve requirement with respect to any Parity Obligations; and

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

In addition, the City 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 Net Revenues which are at least equal to one hundred twenty-five percent (125%) of the amount described in the preceding clause (b) for such Fiscal Year.

Section 5.3. Superior and Subordinate Obligations. The City shall not issue or incur any additional bonds or other obligations during the Term of this Agreement having any priority in payment of principal or interest out of the Net Revenues over the Installment Payments. Nothing herein is intended or shall be construed to limit or affect the ability of the City to issue or incur (a) Parity Obligations pursuant to Section 4.9, or (b) obligations which are either unsecured or which are secured by an interest in the Net Revenues which is junior and subordinate to the pledge of and lien upon the Net Revenues established hereunder.

Section 5.4. Issuance of Parity Obligations. Except for obligations incurred to prepay or post a security deposit for the payment of Installment Payments or Parity Obligations, the City shall not issue or incur any additional Parity Obligations during the term hereof unless:

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

(b) Net Revenues (including Demand Fees), calculated on sound accounting principles, and excluding any balances in any fund at the beginning of the period of computation, as shown by the books of the City for the latest Fiscal Year, or any more recent twelve (12)-month period selected by the City ending not more than sixty (60) days prior to the adoption of the resolution pursuant to which instrument such Parity Debt is issued or incurred, as shown by the books of the City, plus, at the option of the City, either or both of the items below designated (i) and (ii), shall have amounted to at least 1.25 times the sum of the maximum Installment Payments and the maximum debt service with respect to all Parity Obligations that will be outstanding immediately subsequent to

the issuance of such Parity Obligations coming due and payable in any future twelve-month period or Fiscal Year subsequent to the incurring of such Parity Obligations; and

(c) Net Revenues, excluding Demand Fees, calculated on sound accounting principles, and excluding any balances in any fund at the beginning of the period of computation, as shown by the books of the City for the latest Fiscal Year, or any more recent twelve (12)-month period selected by the City ending not more than sixty (60) days prior to the adoption of the resolution pursuant to which instrument such Parity Debt is issued or incurred, as shown by the books of the City, plus, at the option of the City, either or both of the items below designated (i) and (ii), shall have amounted to at least 1.15 times the sum of the maximum Installment Payments and the maximum debt service with respect to all Parity Obligations that will be outstanding immediately subsequent to the issuance of such Parity Obligations coming due and payable in any future twelve-month period or Fiscal Year subsequent to the incurring of such Parity Obligations.

Either or both of the following items may be added to Net Revenues for the purpose of applying the restriction contained in (b) and (c) above:

(i) An allowance for revenues from any additions to or improvements or extensions of the Enterprise to be made with the proceeds of such additional obligations, and also for Net Revenues from any such additions, improvements or extensions which have been made from moneys from any source but which, during all or any part of such Fiscal Year, were not in service, all in an amount equal to 90% of the estimated additional average annual net revenues to be derived from such additions, improvements and extensions for the first 36-month period following closing of the proposed Parity Obligations, all as shown by the certificate or opinion of a qualified independent engineer or consultant employed by the City.

(ii) An allowance for earnings arising from any increase in the charges made for service from the Enterprise which has become effective prior to the incurring of such additional obligations but which, during all or any part of such Fiscal Year, was not in effect, in an amount equal to 100% of the amount by which Net Revenues would have been increased if such increase to charges had been in effect during the whole of such Fiscal Year and any period prior to the incurring of such additional obligations, as shown by the certificate or opinion of a qualified independent engineer or consultant employed by the City; and

(d) A reserve fund shall be funded for such Parity Obligations which is at least equal to the amount resulting from the application on the closing date of such Parity Obligations of the formula contained in the definition of Reserve Requirement under the Trust Agreement as applied to the Parity Obligations.

The provisions of subsection (b) and (c) of this Section shall not apply to any Parity Obligations if all of the proceeds of which (other than proceeds applied to pay costs of issuing such Parity Obligations and to make a reserve fund deposit required pursuant to subsection (d) of this Section) shall be deposited in an irrevocable escrow for the purpose of paying the principal

of and interest and premium (if any) on any Installment Payments or on any outstanding Parity Obligations.

Section 5.5. Additional Payments. In addition to the Installment Payments, the City shall pay when due all costs and expenses incurred by the Authority to comply with the provisions of the Trust Agreement, including without limitation all Costs of Issuance (to the extent not paid from amounts on deposit in the Costs of Issuance 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 Trust Agreement or any related documents, together with all amounts required to indemnify the Trustee pursuant to the Trust Agreement, and all costs and expenses of auditors, engineers and accountants. The Additional Payments shall be payable from, but shall not be secured by a pledge or lien upon, the Net Revenues. The rights of the Trustee and the obligations of the City under this Section 5.5 shall survive the termination of this Installment Purchase Agreement and the resignation or removal of the Trustee.

Section 5.6. Investments. All moneys held by the City in the Reserve Fund shall be invested in Permitted Investments and the investment earnings thereon shall remain on deposit in such fund, except as otherwise provided herein.

Section 5.7. Rate Stabilization Fund. The City shall maintain and hold a separate fund to be known as the "Rate Stabilization Fund". From time to time the City may deposit in the Rate Stabilization Fund from Gross Revenues remaining, after making the allocation provided in Section 5.2 hereof, such amounts as the City shall determine, provided that deposits with respect to any Fiscal Year may be made at any time during such Fiscal Year and until (but not after) the day which is sixty (60) days following the end of such Fiscal Year. The City may withdraw amounts from the Rate Stabilization Fund for inclusion in Gross Revenues for any Fiscal Year, or for any other lawful purpose of the Enterprise, such withdrawals to be made at any time during such Fiscal Year and until (but not after) the day which is sixty (60) days after the end of such Fiscal Year. All interest or other earnings upon deposits in the Rate Stabilization Fund may be withdrawn therefrom and accounted for as Gross Revenues. Notwithstanding the foregoing, no deposit of Gross Revenues to the Rate Stabilization Fund may be made to the extent such Gross Revenues were included in an independent consultant's report submitted in accordance with the Installment Sale Agreement or an instrument relating to Parity Obligations and withdrawal of the Gross Revenues to be deposited in the Rate Stabilization Fund from the Gross Revenues employed in rendering said independent consultant's report would cause noncompliance with provisions of this Agreement.

ARTICLE VI COVENANTS OF THE CITY

Section 6.1. Compliance with Installment Purchase Agreement and Ancillary Agreements. The City will punctually pay the Series 2010 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 Agreement for any cause 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, 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 Authority to observe or perform any agreement, condition, covenant or term contained herein required to be observed and performed by it, whether express or implied, or any duty, liability or obligation arising out of or connected herewith or the insolvency, or deemed insolvency, or bankruptcy or liquidation of the Authority or any force majeure, including acts of God, tempest, storm, earthquake, war, rebellion, riot, civil disorder, acts of public enemies, blockade or embargo, strikes, industrial disputes, lock outs, lack of transportation facilities, fire, explosion, or acts or regulations of governmental authorities.

The City 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 between the parties to this Agreement that, subject to Section 10.6 hereof, each of the agreements, conditions, covenants and terms contained in each of this Agreement and the Trust Agreement is an essential and material term of the purchase of and payment for the Project by the City pursuant to and in accordance with the Law.

The City 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 executed or issued, as the case may be.

Section 6.2. Against Encumbrances. The City will not make any pledge of or place any lien on Net Revenues or the moneys in the Revenue Fund except as provided herein. The City may at any time, or from time to time, issue evidences of indebtedness or incur other obligations for any lawful purpose that are payable from and secured by a pledge of and lien on Net Revenues or any moneys in the Revenue Fund as may from time to time be deposited therein (as provided in Section 5.2), provided that such pledge and lien shall be subordinate in all respects to the pledge of and lien thereon provided herein. The City will not issue any evidences of indebtedness or incur other obligations that are payable from and secured by a pledge of and lien on Net Revenues senior to the pledge of and lien on Net Revenues of the Series 2010 Installment Payments.

Section 6.3. Against Sale or Other Disposition of Property. The City will not enter into any agreement or lease that impairs the operation of the Enterprise or any part thereof necessary to secure adequate Net Revenues for the payment of the Series 2010 Installment Payments, or that would otherwise impair the rights of the Authority hereunder or the operation of the Enterprise. Any real or personal property that has become nonoperative or that is not needed for the efficient and proper operation of the Enterprise, or any material or equipment that has become worn out, may be sold if such sale will not impair the ability of the City to pay the Series 2010 Installment Payments and if the proceeds of such sale are deposited in the Revenue Fund.

Nothing herein shall restrict the ability of the City to sell or lease any portion of the Enterprise if such portion is immediately repurchased or relet by the City or an entity related to the City and if such arrangement cannot by its terms result in the City of such portion of the Enterprise exercising any remedy that would deprive the City or a related entity of or otherwise interfere with its right to own and operate such portion of the Enterprise.

Section 6.4. Against Competitive Facilities. To the extent that it can so legally obligate itself, the City covenants that it will not acquire, construct, maintain or operate and will not, to the extent permitted by law and within the scope of its powers, permit any other public or

private agency, corporation, district or political subdivision or any person whomsoever to acquire, construct, maintain or operate within the territory of the City any water system competitive with the Enterprise.

Section 6.5. Tax Covenants. The City and the Authority covenant as follows:

(a) Definitions. When used in this Section, the following terms have the following meanings:

“*Computation Date*” has the meaning set forth in section 1.148-1(b) of the Tax Regulations.

“*Gross Proceeds*” means any proceeds as defined in section 1.148-1(b) of the Tax Regulations, and any replacement proceeds as defined in section 1.148-1(c) of the Tax Regulations, of the Bonds.

“*Investment*” has the meaning set forth in section 1.148-1(b) of the Tax Regulations.

“*Nonpurpose Investment,*” means any investment property, as defined in section 148(b) of the Code, in which Gross Proceeds of the Bonds are invested and that is not acquired to carry out the governmental purposes of the Bonds.

“*Rebatable Amount*” has the meaning set forth in section 1.148-1(b) of the Tax Regulations.

“*Yield*” of

(1) any Investment has the meaning set forth in section 1.148-5 of the Tax Regulations; and

(2) the Bonds has the meaning set forth in section 1.148-4 of the Tax Regulations.

(b) Not to Cause Interest to Become Taxable. The Authority and the City shall not use, permit the use of, or omit to use Gross Proceeds or any other amounts (or any property the acquisition, construction or improvement of which is to be financed directly or indirectly with Gross Proceeds) in a manner that if made or omitted, respectively, would cause the interest on any of the Bonds to become includable in the gross income, as defined in section 61 of the Code, of the owner thereof for federal income tax purposes. Without limiting the generality of the foregoing, unless and until the Authority or the City receives a written opinion of Bond Counsel to the effect that failure to comply with such covenant will not adversely affect the exemption from federal income tax of the interest on any Bond, the Authority or the City, as the case may be, shall comply with each of the specific covenants in this Section.

(c) No Private Use or Private Payments. Except as would not cause the Bonds to become a “private activity bond” within the meaning of section 141 of the Code and the Tax Regulations and rulings thereunder, the City shall at all times prior to the making of the final Series 2010 Installment Payment and termination of this Agreement:

(1) require that one or more state or local governmental agencies exclusively own, operate and possess all property the acquisition, construction or improvement of which is to be financed or refinanced directly or indirectly with Gross Proceeds of the this Agreement, and not use or permit the use of such Gross Proceeds (including all contractual arrangements with terms different than those applicable to the general public) or any property acquired, constructed or improved with such Gross Proceeds in any activity carried on by any person or entity (including the United States or any agency, department and instrumentality thereof) other than a state or local government, unless such use is solely as a member of the general public; and

(2) not permit the direct or indirect imposition of any charge or other payment on or by any person or entity that is treated as using Gross Proceeds of this Agreement or any property the acquisition, construction or improvement of which is to be financed or refinanced directly or indirectly with such Gross Proceeds, other than taxes of general application within the City.

For purposes of the foregoing, any “use” of the Gross Proceeds of this Agreement, or of any portion of the Enterprise, by any person as a member of (*i.e.*, on the same basis as) the general public will be disregarded; provided, however, that (i) use pursuant to an output contract (such as a take, or a take or pay, contract) will not be treated as use by the nongovernmental person as a member of the general public unless that use is pursuant to generally applicable tariffs and is pursuant to a contract having a term of not in excess of ninety days, or is pursuant to a retail requirements contract, is pursuant to an arm’s-length arrangement having a term not in excess of thirty days, or commences only after consultation by the City with Bond Counsel or with other counsel that is nationally recognized as expert in the area of taxation of municipal obligations on the basis of which consultation the City concludes such arrangement will not result in a violation of the covenants of this Section, and (ii) use pursuant to an arrangement under which a nongovernmental person provides services to the City with respect to any portion of the Enterprise will not be disregarded unless such arrangement satisfies the administrative criteria established by the Internal Revenue Service for management contracts that do not establish private business use relationships or commences only after consultation by the City with Bond Counsel or with other counsel that is nationally recognized as expert in the area of taxation of municipal obligations on the basis of which consultation the City concludes such arrangement will not result in a violation of the covenants of this Section.

(d) No Private Loan. Except as would not cause this Agreement to become a “private activity bond” within the meaning of section 141 of the Code and the Tax Regulations and rulings thereunder, neither the City nor the Authority has used or permitted the use of, or shall use or permit the use of Gross Proceeds of this Agreement to make or finance loans to any person or entity other than a state or local government. For purposes of the foregoing covenant, Gross Proceeds are considered to be “loaned” to a person or entity if: (1) property acquired, constructed or improved with such Gross Proceeds is sold or leased to such person or entity in a transaction that creates a debt for federal income tax purposes; (2) capacity in or service from such property is committed to such person or entity under a take-or-pay, output or similar contract or arrangement; or (3) indirect benefits, or burdens and benefits of ownership, of such Gross Proceeds or any property acquired, constructed or improved with such Gross Proceeds are otherwise transferred in a transaction that is the economic equivalent of a loan.

(e) Not to Invest at Higher Yield. Except as would not cause this Agreement to become an “arbitrage bond” within the meaning of section 148 of the Code and the Tax Regulations and rulings thereunder, neither the City nor Authority shall directly or indirectly invest or permit the investment of Gross Proceeds of this Agreement at any time prior to the final payment of the Series 2010 Installment Payments and the termination of this Agreement in any Investment, if as a result of such investment the Yield on Investments acquired with Gross Proceeds, whether then held or previously disposed of, materially exceeds the Yield of this Agreement within the meaning of said section 148. For purposes of this paragraph, Yield on Investments shall be determined in accordance with the provisions of section 1.148-5 of the Tax Regulations (which, under certain circumstances, requires Yield to be determined separately for each Investment or class of Investments).

(f) Not Federally Guaranteed. Except to the extent permitted by section 149(b) of the Code and the Tax Regulations and rulings thereunder, neither the City nor the Authority shall take or omit to take, or permit, any action that would cause this Agreement to be treated as “federally guaranteed” within the meaning of section 149(b) of the Code and the Tax Regulations and rulings thereunder.

(g) Information Report. The City shall timely file or cause to be filed any information required by section 149(e) of the Code with respect to this Agreement with the Secretary of the Treasury on Form 8038-G or such other form and in such place as the Secretary may prescribe.

(h) Rebate. Except to the extent otherwise provided in section 148(f) of the Code and the Tax Regulations and rulings thereunder:

(1) The City shall account for all Gross Proceeds of this Agreement (including all receipts, expenditures and investments thereof) on its books of account separately and apart from all other funds (and receipts, expenditures and investments thereof) and shall retain all records of accounting for at least six years after the day of final payment of the Series 2010 Installment Payments and termination of this Agreement. However, to the extent permitted by law, the City may commingle Gross Proceeds of this Agreement with other money of the City, provided that the City separately accounts for each receipt and expenditure of Gross Proceeds and the obligations acquired therewith.

(2) Not less frequently than each Computation Date, the City shall calculate the Rebatable Amount in accordance with rules set forth in section 148(f) of the Code and the Tax Regulations and rulings thereunder, which the City shall maintain with its official transcript of proceedings relating to the execution and delivery of this Agreement until six years after the final Computation Date, and to provide promptly to the Authority a copy of each said calculation.

(3) In order to assure the excludability of the Interest Component of Series 2010 Installment Payments from the gross income of the owners thereof for federal income tax purposes, the City shall make or cause to be made rebate payments at the times and in the amounts as are or may be required by section 148(f) of the Code and the Tax Regulations and rulings thereunder, which payments shall be accompanied by Form 8038-T prepared by the City or such other forms and information as is or may be required by section 148(f) of the Code and the Tax Regulations and rulings thereunder.

(4) The City shall cause the exercise of reasonable diligence to assure that no errors are made in the calculations and payments required by paragraphs (2) and (3) hereof, that if nevertheless an error is made, to discover and promptly correct such error within a reasonable amount of time thereafter (and in all events within one hundred eighty (180) days after the error has been or with the exercise of reasonable diligence would have been discovered), including payment to the United States of any additional Rebate Amount owed to it, interest thereon, and any penalty imposed under section 1.148-3(h) of the Tax Regulations.

(i) Not to Divert Arbitrage Profits. Except to the extent permitted by section 148 of the Code and the Tax Regulations and rulings thereunder, neither the City nor the Authority shall enter into any transaction that reduces the amount required to be paid to the United States pursuant to section 148(f) of the Code because such transaction results in a smaller profit or a larger loss than would have resulted if the transaction had been at arm's length and the Yield of this Agreement had been irrelevant to each party.

(j) Agreement Not Hedge Bond. The City represents that (i) on the date of execution and delivery of this Agreement, it reasonably expects that no less than 85 percent of the spendable proceeds of this Agreement would be expended for the governmental purposes of that obligation within the three-year period commencing on such date, and (ii) no more than 50% of the proceeds of this Agreement will be invested in "nonpurpose investments" having a substantially guaranteed yield for 4 years or more.

Section 6.6. Maintenance and Operation of the Enterprise. The City 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 Operation and Maintenance Costs as they become due and payable.

Section 6.7. Payment of Claims. The City will pay and discharge any and all lawful claims for labor, materials or supplies that, if unpaid, might become a lien on the Revenues or the funds or accounts created hereunder or under the Trust Agreement or on any funds in the hands of the City pledged to pay the Series 2010 Installment Payments or to the Owners prior or superior to the lien of the Series 2010 Installment Payments or that might impair the security of the Series 2010 Installment Payments, except that if the City desires to contest any such lien it may do so. If any such lien shall be reduced to final judgment and such judgment or any process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and such stay thereafter expires, the City will forthwith pay or cause to be paid and discharged such judgment.

Section 6.8. Insurance.

(a) The City will procure and maintain or cause to be procured and maintained insurance relating to the Enterprise with responsible insurers in such amounts and against such risks (including damage to or destruction of the Enterprise) as are usually covered in connection with facilities similar to the Enterprise, so long as such insurance is available from reputable insurance companies at reasonable costs.

In the event of any damage to or destruction of the Enterprise caused by the perils covered by such insurance, the Net Proceeds thereof shall be applied to the reconstruction, repair or replacement of the damaged or destroyed portion of the Enterprise. The City shall begin such

reconstruction, repair or replacement promptly after such damage or destruction shall occur, and shall continue and properly complete such reconstruction, repair or replacement as expeditiously as possible, and shall pay out of such Net Proceeds all costs and expenses in connection with such reconstruction, repair or replacement so that the same shall be completed and the Enterprise shall be free and clear of all claims and liens.

If such Net Proceeds exceed the costs of such reconstruction, repair or replacement portion of the Enterprise, and/or the cost of the construction of additions, betterments, extensions or improvements to the Enterprise, then the excess Net Proceeds shall be applied in part to prepayment of Series 2010 Installment Payments as provided in Article VII and in part to such other fund or account as may be appropriate and used for the retirement of Parity Obligations in the same proportion that the aggregate unpaid principal balance of the Series 2010 Installment Payments then bears to the aggregate unpaid principal amount of such Parity Obligations. If such Net Proceeds are sufficient to enable the City to retire the entire obligation evidenced hereby prior to the final due date of the Series 2010 Installment Payments as well as the entire obligations evidenced by Parity Obligations then remaining unpaid prior to their final respective due dates, the City may elect not to reconstruct, repair or replace the damaged or destroyed portion of the Enterprise, and/or not to construct other additions, betterments, extensions or improvements to the Enterprise; and thereupon such Net Proceeds shall be applied to the prepayment of the Series 2010 Installment Payments as provided in Article VII and to the retirement of such Parity Obligations.

(b) The City will procure and maintain such other insurance as it shall deem advisable or necessary to protect its interests and the interests of the Authority, which insurance shall afford protection in such amounts and against such risks as are usually covered in connection with municipal water systems similar to the Enterprise.

(c) Any insurance required to be maintained by paragraph (a) above and, if the City determines to procure and maintain insurance pursuant to paragraph (b) above, such insurance, may be maintained under a self-insurance program so long as such self-insurance is maintained in the amounts and manner usually maintained in connection with water systems similar to the Enterprise and is, in the opinion of an accredited actuary, actuarially sound.

All policies of insurance required to be maintained herein shall provide that the Authority and the Trustee shall be given thirty (30) days written notice of any intended cancellation thereof or reduction of coverage provided thereby.

The Trustee shall not be responsible for the sufficiency or adequacy of the insurance maintained by the City.

Section 6.9. Accounting Records; Financial Statements and Other Records.

(a) The City will keep appropriate accounting records in which complete and correct entries shall be made of all transactions relating to the Enterprise, which records shall be available for inspection by the Authority and the Trustee at reasonable hours and under reasonable conditions.

(b) The City will prepare and file with the Authority and the Trustee annually within two hundred forty (240) days after the close of each Fiscal Year (commencing with the Fiscal Year ending June 30, 2010);

(1) financial statements of the City for the preceding Fiscal Year prepared in accordance with generally accepted accounting principles, together with an Accountant's Report thereon; and

(2) a detailed report as to all insurance policies maintained and self-insurance programs maintained by the City with respect to the Enterprise, as of the close of such Fiscal Year, including the names of the insurers that have issued the policies and the amounts thereof and the property or risks covered thereby.

(c) The City will prepare annually not more than two hundred forty (240) days after the close of each Fiscal Year (commencing with the Fiscal Year ending June 30, 2010) a summary report showing in reasonable detail the Gross Revenues and the Operation and Maintenance Costs for such Fiscal Year and containing a general statement of the physical condition of the Enterprise. The City will furnish a copy of such summary report to the Authority and upon request to any investment bankers, security dealers and others interested in the Series 2010 Installment Payments.

(d) The City will cause its auditors to prepare annually by January 31 of each year (commencing with January 31, 2011) a compliance report stating whether or not the City has complied with its covenants contained in Section 6.12 hereof during the preceding Fiscal Year.

Section 6.10. Protection of Security and Rights of the Authority. The City will preserve and protect the security hereof and the rights of the Authority to the Series 2010 Installment Payments hereunder and will warrant and defend such rights against all claims and demands of all persons.

Section 6.11. Payment of Taxes and Compliance with Governmental Regulations. The City will pay and discharge all taxes, assessments and other governmental charges that may hereafter be lawfully imposed upon the Enterprise, or any part thereof or upon the Revenues when the same shall become due. The City 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 City 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 6.12. Collection of Rates and Charges. The City will have in effect at all times by-laws, rules and regulations requiring each customer to pay the rates, fees and charges applicable to the Water Services and providing for the billing thereof and for a due date and a delinquency date for each bill.

Section 6.13. 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 City files with the Authority and the Trustee a certificate showing (i) the estimated loss of annual Net Revenues, if any, suffered or to be suffered by the City 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 and constructed by the City from such Net Proceeds, and (iii) an estimate of the additional annual Net Revenues to be derived from such additions, betterments, extensions or improvements, and (2) the City, on the basis of such certificate filed with the Authority and the Trustee, 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 City to meet its obligations hereunder will not be substantially impaired (which determination shall be final and conclusive), then the City shall promptly proceed with the acquisition and construction of such additions, betterments, extensions or improvements substantially in accordance with such certificate and such Net Proceeds shall be applied for the payment of the costs of such acquisition and construction, and any balance of such Net Proceeds not required by the City for such purpose shall be deposited in the Water Fund.

(b) If the foregoing conditions are not met, then such Net Proceeds shall be applied by the City in part to the prepayment of Series 2010 Installment Payments as provided in Article VII, and in part to such other fund or account as may be appropriate and used for the retirement of Parity Obligations in the same proportion that the aggregate unpaid principal balance of Series 2010 Installment Payments then bears to the aggregate unpaid principal amount of such Parity Obligations.

Section 6.14. Further Assurances. The City 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 Authority of the rights and benefits provided to it herein.

Section 6.15. Continuing Disclosure. The City will comply with the continuing disclosure requirements promulgated under Securities and Exchange Commission Rule 15c2-12(b)(5) and will also comply with the terms of the Continuing Disclosure Certificate.

Section 6.16. Access to the Enterprise. The City agrees that the Authority, the Trustee and the Insurer, and any duly authorized representative thereof, shall have the right at all reasonable times to enter upon and to examine and inspect the Enterprise. The City further agrees that the Authority and the Trustee, and any duly authorized representative thereof, shall have such rights of access to the Enterprise as may be reasonably necessary to cause the proper maintenance of the Enterprise in the event of failure by the City to perform its obligations hereunder.

Section 6.17. Supplemental Legal Documents. The City shall not enter into any legal document amending or supplementing this Installment Purchase Agreement without the consent of the Bond Insurer; provided, however, that the Insurer's consent is not required if such supplement is being entered into to either (i) refund the Certificates to obtain savings or (ii) issue parity debt pursuant to Section 5.3 hereof.

ARTICLE VII PREPAYMENT OF SERIES 2010 INSTALLMENT PAYMENTS

Section 7.1. Prepayment. (a) Prepayment from Net Proceeds The City may or shall, as the case may be, prepay from the Net Proceeds as provided in Sections 6.8 and 6.13 herein the Series 2010 Installment Payments as a whole or in part in the order of payment date as directed by the City (or in the event the City has not directed the order of payment date, in inverse order of maturity) at a prepayment price equal to the sum of the principal amount prepaid plus accrued interest thereon to the date of prepayment.

(b) Optional Prepayment. The 2010 Installment Payments are subject to optional prepayment in accordance with the provisions of Section 4.01(a) of the Trust Agreement relating to optional prepayment of the Certificates.

(c) Other Obligations. Notwithstanding any such prepayment, the City shall not be relieved of its obligations hereunder, including its obligations under Article IV, until the Purchase Price shall have been fully paid (or provision for payment thereof shall have been provided to the written satisfaction of the Authority).

Section 7.2. Method of Prepayment. Before making any prepayment pursuant to Section 7.1, the City 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 Authority and the Trustee describing such event and specifying the date on which the prepayment will be paid, which date shall be not less than sixty (60) days from the date such notice is given, unless such prepayment must occur on an Interest Payment Date, in which case such date shall be the next Interest Payment Date with respect to which notice of prepayment may be timely given pursuant to the Trust Agreement.

ARTICLE VIII EVENTS OF DEFAULT AND REMEDIES OF THE AUTHORITY

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

(1) if default shall be made in the due and punctual payment of any Series 2010 Installment Payment or any Parity Obligations when and as the same shall become due and payable;

(2) if default shall be made by the City in the performance of any of the agreements or covenants required herein to be performed by it, and such default shall have continued for a period of thirty (30) days after the City shall have been given notice in writing of such default by the Authority; provided, however, if in the reasonable opinion of the City 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 if corrective action is instituted by the City within such thirty (30) day period and the City shall thereafter diligently and in good faith cure such failure in a reasonable period of time; or

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

then and in each and every such case during the continuance of such Event of Default specified in clause (3) above, the Authority shall, 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 for any other such Event of Default the

Authority may, with the prior written consent of the Insurer and will at the written direction of the Insurer, in each case 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 City, declare the entire principal amount of the unpaid Series 2010 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 subsection however, is subject to the condition that if at any time after the entire principal amount of the unpaid Series 2010 Installment Payments referred to in clause (1) above that have come due and the accrued interest thereon shall have been so declared due and payable and before any judgment or decree for the payment of the moneys due shall have been obtained or entered the City shall deposit with the Authority a sum sufficient to pay the unpaid principal amount of the Series 2010 Installment Payments or any Parity Obligations referred to in clause (1) above due prior to such declaration and the accrued interest thereon, with interest on such overdue installments, at the rate or rates applicable to the remaining unpaid principal balance of the Series 2010 Installment Payments or such Parity Obligations if paid in accordance with their terms, and the reasonable expenses of the Authority, and any and all other defaults known to the Authority (other than in the payment of the entire principal amount of the unpaid Series 2010 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 Authority or provision deemed by the Authority to be adequate shall have been made therefor, then and in every such case the Authority, by written notice to the City, 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, may rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon.

Section 8.2. Application of Funds Upon Acceleration. Upon the date of the declaration of acceleration as provided in Section 8.1, all Gross Revenues thereafter received shall be applied in the following order -

First, to the payment of the fees, costs and expenses of the Trustee, if any, incurred in and about the performance of its powers and duties under this Agreement and then to the payment of the Authority of the fees, costs and expenses, if any, in carrying out the provisions of this article, including reasonable compensation to its accountants, advisors and legal counsel;

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

Third, to the payment of the entire principal amount of the unpaid Series 2010 Installment Payments and Parity Obligations and the accrued interest thereon, with interest on the overdue installments at the rate or rates of interest applicable to the Series 2010 Installment Payments and Parity Obligations if paid in accordance with their respective terms.

Section 8.3. Other Remedies of the Authority. The Authority shall have the right -

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

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

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

Notwithstanding anything contained herein, the Authority shall have no security interest in or mortgage on the Project or the Enterprise or any other real property of the City and no default hereunder shall result in the loss of the Project or the Enterprise or any other real property of the City

Section 8.4. Non-Waiver. Nothing in this article or in any other provision hereof shall affect or impair the obligation of the City, which is absolute and unconditional, to pay the Series 2010 Installment Payments to the Authority at the respective due dates or upon prepayment from the Net Revenues, the Revenue Fund and the other funds herein pledged for such payment, or shall affect or impair the right of the Authority, 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 Authority 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 Authority 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 Authority by the Law or by this article may be enforced and exercised from time to time and as often as shall be deemed expedient by the Authority.

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

Section 8.5. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Authority or the Certificate Owners, or as provided in the Trust Agreement, 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 under the Trust Agreement 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 the Law or any other law.

ARTICLE IX DISCHARGE OF OBLIGATIONS

Section 9.1. Discharge of Obligations. When:

(a) all or any portion of the Series 2010 Installment Payments shall have become due and payable in accordance herewith or a written notice of the City to prepay all or any portion of the Series 2010 Installment Payments shall have been filed with the Trustee; and

(b) there shall have been deposited with the Trustee at or prior to the Series 2010 Installment Payment Dates or date (or dates) specified for prepayment, in trust for the benefit of

the Authority or its assigns and irrevocably appropriated and set aside to the payment of all or any portion of the Series 2010 Installment Payments, Defeasance Securities in a sufficient amount to pay all principal, prepayment premium, if any, and interest of such Series 2010 Installment Payments to their respective Series 2010 Installment Payment Dates or prepayment date or dates as the case may be; and

(c) provision shall have been made for paying all fees and expenses of the Trustee,

then and in that event, if an opinion of Bond Counsel is filed with the Trustee to the effect that the actions authorized by and taken pursuant to this Article IX shall not adversely affect the tax exempt status of the interest portion of the Series 2010 Installment Payments, the right, title and interest of the Authority herein and the obligations of the City hereunder shall, with respect to all or such portion of the Series 2010 Installment Payments as have been so provided for, thereupon cease, terminate, become void and be completely discharged and satisfied (except for the right of the Trustee and the obligation of the City to have such moneys and such Permitted Investments applied to the payment of such Series 2010 Installment Payments).

In such event, upon request of the City the Trustee shall cause an accounting for such period or periods as may be requested by the City to be prepared and filed with the City and shall execute and deliver to the City all such instruments as may be necessary or desirable to evidence such total or partial discharge and satisfaction, as the case may be, and, in the event of a total discharge and satisfaction, the Trustee shall pay over to the City, after payment of all amounts due the Trustee pursuant to the Trust Agreement, as an overpayment of Series 2010 Installment Payments, all such moneys or such Permitted Investments held by it pursuant hereto other than such moneys and such Permitted Investments as are required for the payment or prepayment of the Series 2010 Installment Payments, which moneys and Permitted Investments shall continue to be held by the Trustee in trust for the payment of the Series 2010 Installment Payments and shall be applied by the Trustee to the payment of the Series 2010 Installment Payments of the City.

ARTICLE X MISCELLANEOUS

Section 10.1. Liability of City Limited to Net Revenues. Notwithstanding anything contained herein, the City shall not be required to advance any moneys derived from any source of income other than the Net Revenues, the Revenue Fund and the other funds provided herein and in the Trust Agreement for the payment of the Series 2010 Installment Payments or for the performance of any agreements or covenants required to be performed by it contained herein. The City may, however, 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 City for such purpose.

The obligation of the City to make the Series 2010 Installment Payments is a special obligation of the City payable solely from Net Revenues, the Revenue Fund and other funds described in this Installment Purchase Agreement and in the Trust Agreement, and does not constitute a debt of the City or of the State of California or of any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction.

Section 10.2. Benefits of Installment Purchase Agreement Limited to Parties.

Except as provided in Section 10.3 hereto, nothing contained herein, expressed or implied, is intended to give to any person other than the City, the Authority or the Insurer 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 City, the Authority or the Insurer shall be for the sole and exclusive benefit of the other party.

Section 10.3. Successor Is Deemed Included in all References to Predecessor.

Whenever either the City or the Authority 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 City or the Authority, and all agreements and covenants required hereby to be performed by or on behalf of the City or the Authority shall bind and inure to the benefit of the respective successors thereof whether so expressed or not.

Section 10.4. Waiver of Personal Liability. No director, officer or employee of the City shall be individually or personally liable for the payment of the Series 2010 Installment Payments, but nothing contained herein shall relieve any director, officer or employee of the City from the performance of any official duty provided by any applicable provisions of law or hereby.

Section 10.5. Third Party Beneficiary. The Trustee shall be and is hereby made a third party beneficiary hereunder with all rights of a third party beneficiary. To the extent that this Agreement confers upon or gives or grants to the Insurer any right, remedy or claim under or by reason of this Agreement the Insurer shall be and is hereby made a third-party beneficiary hereunder and may enforce any such right remedy or claim conferred, given or granted hereunder.

Section 10.6. Article and Section Headings; Gender and References. The headings or titles of the several articles and sections hereof and the table of contents appended hereto shall be solely for convenience of reference and shall not affect the meaning, construction or effect hereof, and words of any gender shall be deemed and construed to include all genders. All references herein to “Articles,” “Sections” and other subdivisions or clauses are to the corresponding articles, sections, subdivisions or clauses hereof; and the words “hereby”, “herein,” “hereof,” “hereto,” “herewith” and other words of similar import refer to this Agreement as a whole and not to any particular article, section, subdivision or clause hereof.

Section 10.7. Partial Invalidity. If any one or more of the agreements or covenants or portions thereof required hereby to be performed by or on the part of the City or the Authority shall be contrary to law, then such agreement or agreements, such covenant or covenants or such portions thereof shall be null and void and shall be deemed separable from the remaining agreements and covenants or portions thereof and shall in no way affect the validity hereof. The City and the Authority hereby declare that they would have executed this Agreement, and each and every other article, section, paragraph, subdivision, sentence, clause and phrase hereof irrespective of the fact that any one or more articles, sections, paragraphs, subdivisions, sentences, clauses or phrases hereof or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

Section 10.8. Assignment. This Agreement and any rights hereunder may be assigned by the Authority to the Trustee, as a whole or in part, without the necessity of obtaining the prior consent of the City.

Section 10.9. Net Contract. This Agreement shall be deemed and construed to be a net contract, and the City shall pay absolutely net during the term hereof the Series 2010 Installment Payments and all other payments required hereunder, free of any deductions and without abatement, diminution or set-off whatsoever.

Section 10.10. California Law. THE INSTALLMENT PURCHASE AGREEMENT SHALL BE CONSTRUED AND GOVERNED IN ACCORDANCE WITH THE LAWS OF THE STATE OF CALIFORNIA.

Section 10.11. Notices. All written notices to be given hereunder shall be given by mail, unsecured email with an imaged or scanned attachment (such as a .pdf), or fax machine or other similar electronic transmission, with confirmation of receipt of such transmission, 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 City: City of Fillmore
8200 Fillmore Boulevard
Fillmore, CA 92683
Attention: City Manager
Fax No.:
Email address:

If to the Authority: Fillmore Public Financing Authority
8200 Fillmore Boulevard
Fillmore, CA 92683
Attention: Executive Director
Fax No.:
Email address:

If to the Insurer: _____

Attention: _____
Policy No. _____
Telephone: _____
Telecopy: _____

In each case in which notice or other communication refers to an Event of Default, then a copy of such notice or other communication shall also be sent to the attention of the General Counsel of the Insurer and shall be marked to indicate "URGENT MATERIAL ENCLOSED".

Section 10.12. Effective Date. This Agreement shall become effective upon its execution and delivery, and shall terminate when the Purchase Price shall have been fully paid

(or provision for the payment thereof shall have been made to the written satisfaction of the Authority).

Section 10.13. Execution in Counterparts. This 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.

Section 10.14. Indemnification of Authority. The City hereby agrees to indemnify and hold harmless the Authority if and to the extent permitted by law, from and against all claims, advances, damages and losses, including legal fees and expenses, arising out of or in connection with the acceptance or the performance of its duties hereunder, under the Trust Agreement, and the Assignment Agreement; provided that no indemnification will be made for willful misconduct, negligence or breach of an obligation hereunder, under the Trust Agreement or the Assignment Agreement by the Authority.

Section 10.15. Amendments Permitted. (a) This Agreement and the rights and obligations of the Authority, the City, the Owners of the Certificates and of the Trustee may be modified or amended at any time, by an amendment hereto that shall become binding when the written consents of the Owners of a majority in aggregate principal amount of the Certificates then Outstanding, exclusive of Certificates disqualified as provided in Section 12.04 of the Trust Agreement, shall have been filed with the Trustee; provided, however, that the Insurer shall be deemed the Owner of the Certificates then Outstanding entitled to consent to such modification or amendment pursuant to this Section. No such modification or amendment shall

(1) extend the stated maturities of the Certificates, or reduce the rate of interest represented thereby, or extend the time of payment of interest, or reduce the amount of principal represented thereby, or reduce any premium payable on the prepayment thereof, without the consent of the Owner of each Certificate so affected, or

(2) reduce the aforesaid percentage of Owners of Certificates whose consent is required for the execution of any amendment or modification of this Agreement, or

(3) modify any of the rights or obligations of the Trustee or the Authority without its respective written consent thereto.

(b) This Agreement and the rights and obligations of the Authority, the City and of the Owners of the Certificates may also be modified or amended at any time, by an amendment hereto that shall become binding upon adoption, without the consent of the Owners of any Certificates, but only to the extent permitted by law and only for any one or more of the following purposes-

(1) to add to the covenants and agreements of the Authority or the City contained in this Agreement other covenants and agreements thereafter to be observed or to surrender any right or power herein reserved to or conferred upon the Authority or the City, and that shall not adversely affect the interests of the Owners of the Certificates;

(2) to cure, correct or supplement any ambiguous or defective provision contained in this Agreement or in regard to questions arising under this Agreement, as the Authority or the City may deem necessary or desirable and that shall not adversely affect the interests of the Owners of the Certificates; and

(3) to make such other amendments or modifications as may be in the best interests of the Owners of the Certificates.

(c) No amendment without consent of the Owners may modify any of the rights or obligations of the Trustee without its written consent thereto.

Section 10.16. Notice to Rating Agencies. Any rating agency rating the Certificates shall receive notice of each amendment to the Installment Purchase Agreement and a copy thereof at least 15 days in advance of its execution. The Insurer shall be provided by the City with a full transcript of all proceedings relating to any amendment or supplement hereto

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

CITY OF FILLMORE

By: _____
City Manager

FILLMORE PUBLIC FINANCING AUTHORITY

By: _____
Executive Director

EXHIBIT A

PURCHASE PRICE AND INSTALLMENT PAYMENTS

1. The principal amount of payments to be made by the City hereunder is \$_____.

2. The installment payments of principal and interest are payable in the amounts and on the Installment Payment Dates as follows:

<u>Period Ending</u>	<u>Principal</u>	<u>Coupon</u>	<u>Interest</u>	<u>Debt Service</u>
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EXHIBIT B

DESCRIPTION OF PROJECT

Acquisition and installation of water meters throughout the Enterprise and the acquisition, construction and installation of well system upgrades and other capital improvements to the Enterprise originally financed with proceeds of the 1997 Installment Sale Agreement.