Proposal for Direct Purchase of Installment Sale Agreement
Qualified Energy Conservation Bond (QECB)
Laguna County Sanitation District

Summary of Terms and Conditions ("Term Sheet")

Date: April 4, 2011

TRANSACTION SUMMARY:

<u>Obligor</u>:	Laguna County Sanitation District ("Obligor").
<u>Type</u>:	Installment Sale Agreement designated a Qualified Energy Conservation Bond ("Bond").
<u>Term</u>:	15 years from the date of closing ("Dated Date").
<u>Financing Documents</u>:	The Bond will be purchased directly by the Wells Fargo, National Association ("Bank") pursuant to a Purchase Agreement between the County of Santa Barbara ("County") and the Bank ("Purchase Agreement"). Documentation will include all requisite legal authorizations and validity opinions, but will not include an Official Statement or disclosure document.
<u>Bond Amount</u>:	$4,171,470.29 (subject to change).
<u>Purchaser</u>:	Wells Fargo Bank, National Association. The Bank will certify that it is purchasing the Bond without the intent to resale and other typical sophisticated investor certifications.
<u>Use of Proceeds</u>:	The proceeds of the Bond will be used toward the Obligor's North County photovoltaic plant project.
<u>Security</u>:	The Bond shall be secured by a pledge of and lien on the Net Revenues (as defined in the Installment Sale Agreement) of the Obligor on parity with the Obligor's State Revolving Fund Program loan.

FEES:

<u>Bank Closing Fee</u>:	Contingent upon the closing of this transaction, the Obligor will pay all fees and expenses of the Bank's counsel. Estimated cost of $15,000-$20,000, subject to increase if the transaction is not closed within 60 days, if the security or structure of the transaction changes materially, or if other complexities develop.

Other Issuance Costs:	The Obligor will be responsible for all other issuance costs, including but not limited to Bond Counsel fees.

PAYMENT OF FEES AND EXPENSES:

Timing / Computation of Payments:	Bank counsel fees are fully earned when due and non-refundable when paid. Any Bank counsel fees incurred by the Bank in connection with this matter are payable by the Obligor at closing in immediately available funds. Bank counsel fees are contingent upon the closing of the transaction.

STRUCTURE & INTEREST RATE:

Interest Rate:	The rate on the Bond shall be fixed at closing, based on a spread to the 10-Year U.S. Treasury reflecting market conditions at that time, +2.10% ("Fixed Interest Rate"). As an example, an indicative rate on the Bond as of March 22, 2011, would be 5.44%, reflecting the 10-Year U.S. Treasury + 2.10%. The Qualified Tax Credit Bond Rate published on March 22, 2011 was 5.30%, and 70% of this rate amounts to a QECB subsidy of 3.71%. The Obligor's net financing rate in this indicative example is 1.73%. This taxable rate will be payable to the Bank as interest on the Bond. The Obligor will receive QECB direct subsidy payments from the Federal Government at the same time it makes interest payments on the Bond. The level of QECB subsidy is the lesser of: 1) 100% of the rate on the Bond; and 2) 70% of the Qualified Tax Credit Bond Rate published at the time of pricing. The Obligor's financing rate will reflect the net of the Bond rate and the QECB subsidy.
Callable Option:	The Bond may be callable anytime after two years from the Dated Date subject to a prepayment penalty.
Default Rate:	A per annum rate of interest equal to the then current interest rate on the Bond plus 4.0% per annum (the "Default Rate"). The incorporation of a Default Rate reflects that the Bank will be holding this on its balance sheet as a loan as compared to privately placing the Bond with an investor.
Computation Basis:	Computations of interest shall be calculated on the basis of a 360-day year consisting of twelve 30-day months.
Payment of Principal	Interest will be payable semi-annually. Principal will be payable

and Interest: annually under an amortization schedule designed to result in level annual net debt service for the Obligor after taking into account the receipt of QECB direct subsidy payments from the Federal Government.

Prepayment: The Obligor has the option to prepay all or part of the principal outstanding, subject to a prepayment penalty of $20,000, (i) at any time in the event that there is a change of law resulting in the discontinuation of QECB direct subsidy payments from the Federal Government or (ii) any time after two years from the Dated Date with 15 days written notice.

DOCUMENTATION AND COVENANTS:

The Purchase Agreement will be prepared by the Bank's Counsel. The Obligor will be responsible for providing the Installment Sale Agreement, closing documents, and a bond counsel opinion. The Installment Sale Agreement will include, but not be limited to, the terms and conditions outlined herein as well as provisions that are customary and standard with respect to conditions precedent, representations and warranties, covenants, events of default and remedies.

Conditions Precedent to Closing: As customary for transactions of this type, including , but not limited to:

1. Absence of any material adverse change in the business condition, operations, performances of the Obligor since the end of the period reported in the most recent financial statements provided to the Bank;
2. Absence of any change in any law, rule or regulation (or their interpretation or administration), that, in each case, may adversely affect the consummation of the transaction, to be determined in the Bank's sole discretion;
3. Disclosure of any pending or threatened litigation that may have a material adverse effect related to the validity of the Bond, the finances of the Obligor or the Obligor's ability to meet debt service on the Bond (with such pending or threatened litigation acceptable to the Bank);
4. Payment of accrued fees and expenses;
5. Execution and delivery of Bond and all certificates, authorizations and opinions requested in form and substance satisfactory to the Bank, with legal opinions to

cover such matters as the Bank may require;

6. Receipt and review of recent audited financial statements;
7. Receipt of any necessary governmental and regulatory approvals;
8. A certificate of no default, accuracy of representations, covenant compliance, authorization of persons executing documents on behalf of the Obligor and such other matters as the Bank may request in form and substance satisfactory to the Bank;
9. The Bank shall have received and reviewed any additional documentation and financial or other information it finds relevant all of which must be in form and substance satisfactory to the Bank.

Representations, Warranties and Covenants:	As customary for transactions of this type, including, but not limited to, the following: due organization of the Obligor; due authorization of the transaction; Bond valid, binding and enforceable against the Obligor; Bond not violating laws or existing agreements or requiring governmental, regulatory or other approvals which have not been received; no litigation that may have a material adverse effect; no adverse agreements or existing defaults; financial statements true and correct; all information given to the Bank is correct and complete; all approvals, certifications and licenses necessary to execute and deliver the Bond have been obtained.
Covenants:	As customary for transactions of this type, including but not limited to:

(i) Reporting Requirements (see below);

(ii) Compliance with laws, rules and regulations (as applicable);

(iii) Rate Covenant. The Obligor will fix, prescribe, revise and collect rates, fees, and charges for the services provided during each fiscal year to provide annual Net Revenues at levels not less than 1.20 times the Debt Service due during each such fiscal year;

(iv) Additional Debt. The Obligor will not issue any obligation with a pledge or lien on Net Revenues having priority over the Bonds. The Obligor may issue debt on a parity with the Bonds provided that i) the District certifies to the Bank that Net Revenues for the immediately preceding 12 consecutive months of the proposed transaction were equal to or greater than 1.25x maximum annual debt service of the Bonds, outstanding parity debt and the proposed transaction or

ii) an independent engineer or financial consultant employed by the District certifies that the Net Revenues estimated for the immediately commencing 12 consecutive months following the issuance of the proposed transaction after taking into account any rates and charges already approved by the District are estimated to be equal to or greater than 1.25x maximum annual debt service of the Bonds, outstanding parity debt and the proposed transaction.

(v) Prohibition of Transfers. The County will covenant not to transfer, or allow the transfer, of any revenues, including monies in the District Fund, to pay general operating expenses of the County or expenses unrelated to the District without the Bank's prior written consent; provided, that the District Fund may reimburse the reasonable indirect expenses of the County related to services provided by the County to the District.

Reporting Requirements: Audited annual financial statements of the Obligor within 240 days of fiscal year end, together with Auditor's letter including an opinion.

Annual budget of the Obligor within 30 days of fiscal year start.

Written notice of any Event of Default or material litigation within 30 days of discovery by the Laguna County Sanitation District.

EVENTS OF DEFAULT:

Events of Default: As customary for transactions of this type. Will include (without limitation) nonpayment, breach of representations and covenants, bankruptcy and insolvency events with respect to Obligor, or invalidity or contest by the Obligor of any of its obligations under the Bond. The incorporation of a Default Rate reflects that the Bank will be holding this on its balance sheet as a loan as compared to privately placing the Bond with an investor.

Remedies Upon Event of Default: Upon the occurrence of an Event of Default, interest rate on the Bond shall immediately increase to the Default Rate and the Bank may exercise its right of set off, and/or exercise any other rights or remedies available at law or under contract. Interest at the Default Rate shall accrue daily and shall be payable on each Interest Payment Date; provided, however, interest accruing with respect to amounts due but not paid shall be payable upon demand.

MISCELLANEOUS:

Bank Contacts:

Name:	Lynn Love
Title:	Vice President
Address:	Wells Fargo Bank, N.A. 707 Wilshire Blvd., 11th Floor Los Angeles, CA 90017
Telephone:	213-614-2235
E-mail:	lynn.love@wellsfargo.com

Name:	David Johnson
Title:	Managing Director
Address:	Wells Fargo Bank, N.A. 707 Wilshire Boulevard, 17th Floor Los Angeles, CA 90017
Telephone:	(213) 614-2502
E-mail:	david.l.johnson2@wellsfargo.com

Bank Counsel:

Name:	Kathleen C. Johnson Attorney at Law
Address:	1203 De La Vina Street Santa Barbara, CA 93101
Telephone:	(805) 568-0780
Fax:	(805) 568-0790
E-mail:	KCJ@kcjohnsonlaw.com

Indemnification: As customary for a transaction of this type.

Future Modifications: The terms, conditions and interest rates herein reflect the financing and the Bond Amount indicated herein and are subject to revision in the discretion of the Bank.

Governing Law: The Purchase Agreement and any other documents to which the Bank shall become a party will be governed by the laws of the State of California.

Confidentiality: This Term Sheet contains confidential and proprietary structuring and pricing information. Except for disclosure on a confidential basis to your accountants, attorneys and other professional advisors retained by you in connection with this financing or as may be required by law, the contents of this Term Sheet may not be disclosed in whole or in part to any other person or entity without our prior written consent, provided that nothing herein shall restrict disclosure of information relating to the tax structure or tax treatment of the proposed Bond as required to comply with applicable Federal income tax rules relating to such disclosure.

<u>Credit Approvals:</u> This Term Sheet is not a commitment. It represents willingness by the Bank to seek credit approval for a proposed transaction based upon the terms and conditions outlined in this Term Sheet, subject to documentation acceptable to the Bank.

The terms, conditions and pricing are subject to revision in the event that (i) the Bond Amount changes, (ii) the transaction deviates materially from what was initially described, or (iii) the proposed financing does not close (other than as a result of action/inaction by the Bank) by June 1, 2011.

Please evidence your acceptance of the foregoing by signing and returning a copy of the document to the Bank.

This Term Sheet does not represent a commitment by the Obligor to proceed with this transaction and the Bank acknowledges that the financing is subject to Board approval.

Unless the term sheet is earlier rescinded, this term sheet shall expire automatically without further action or notice on the part of the Bank at the close of business on April 6, 2011 unless a signed counterpart of the Term Sheet shall have been delivered to the Bank.

Sincerely,

Lynn Love

Lynn Love
Vice President
Relationship Manager

ACCEPTED AND AGREED TO:

BY: [signature] DATE: 3-31-11

Santa Barbara county
Treasurer-Tax collector