
2020 INSTALLMENT SALE AGREEMENT

by and between the

**LAGUNA COUNTY SANITATION DISTRICT,
as Purchaser**

and the

**SANTA BARBARA COUNTY FINANCE CORPORATION, INC.,
as Seller**

for the

LAGUNA COUNTY SANITATION DISTRICT

Dated as of September 1, 2020

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2020 INSTALLMENT SALE AGREEMENT

This 2020 INSTALLMENT SALE AGREEMENT (the “2020 Installment Sale Agreement”), dated as of September 1, 2020, by and between the LAGUNA COUNTY SANITATION DISTRICT, a county sanitation district duly organized and existing under and by virtue of the laws of the State of California (the “District”), and the SANTA BARBARA COUNTY FINANCE CORPORATION, INC., a nonprofit public benefit corporation duly organized and existing under and by virtue of the laws of the State of California (the “Corporation”);

WITNESSETH:

WHEREAS, the District has determined that the design, acquisition and construction of certain capital improvements to its sanitation system (the “2020 Project”) is necessary and proper for District purposes and uses under the terms of applicable law and is for the common benefit of the District as a whole; and

WHEREAS, the Corporation has determined to assist in the financing of the 2020 Project for the District; and

WHEREAS, the District has determined to make installment sale payments as hereinafter described to the Corporation for the purchase of the 2020 Project and the costs of the design, acquisition and construction thereof and the incidental costs and expenses related thereto; and

WHEREAS, all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in connection with the execution and delivery of the 2020 Installment Sale Agreement do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the parties hereto are now duly authorized to execute and enter into the 2020 Installment Sale Agreement;

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

ARTICLE I

DEFINITIONS

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

Accountant's Report

“Accountant's Report” means the opinion of an Independent Certified Public Accountant.

Board of Directors

“Board of Directors” means the Board of Directors of the District.

Business Day

“Business Day” means any day on which the Trustee is open for corporate trust business at its Corporate Trust Office and on which the Federal Reserve System is open for business.

Certificates

“Certificates” means the Certificates executed and delivered pursuant to the Trust Agreement.

Code

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

Corporate Trust Office

“Corporate Trust Office” means the office of the Trustee defined as such in the Trust Agreement.

Corporation

“Corporation” means the Santa Barbara County Finance Corporation, Inc., a nonprofit public benefit corporation duly organized and existing under and by virtue of the laws of the State of California.

County

“County” means the County of Santa Barbara, a political subdivision duly organized and existing under and by virtue of the laws of the State of California.

Debt Service

“Debt Service” means, for any Fiscal Year, the sum of that portion of the Installment Payments required to be made at the times provided in the Parity Obligations that would have accrued during such Fiscal Year if such Installment Payments were deemed to accrue daily in equal amounts from, in each case, the next preceding Installment Payment Date of interest or principal or the date of the pertinent Parity Obligation, as the case may be; provided, that

(a) if the Installment Payments due under any such Parity Obligations bear interest payable pursuant to a variable interest rate formula, the interest rate on such Parity Obligations for periods when the actual interest rate cannot yet be determined, shall be assumed to be equal to the greater of (i) the actual rate on the date of calculation, or if such Parity Obligations are not yet outstanding, the initial rate (if then established and binding), (ii) if the Parity Obligations have been outstanding for at least twelve months, the average rate over the twelve months immediately preceding the date of calculation, and (iii)(1) if interest on such Parity Obligations is excludable from gross income under the applicable provisions of the Internal Revenue Code, the most recently published “Bond Buyer 25 Bond Revenue Index” (or comparable index if no longer published) or (2) if interest is not so excludable, the interest rate on direct U.S. Treasury obligations with comparable maturities plus fifty (50) basis points; and

(b) if 20% or more of the original principal of such Installment Payments due under such Parity Obligations is not due until the final stated maturity of such Installment Payments due under such Parity Obligations, such principal may, at the option of the District, be treated as if it were due based upon a level amortization of such principal over the term of such Installment Payments or twenty-five (25) years, whichever is greater.

Direct Subsidy Payments

“Direct Subsidy Payments” means the cash subsidy payments from the United States Treasury under Section 54A or 6431 of the Code.

District

“District” means the Laguna County Sanitation District, a county sanitation district duly organized and existing under and by virtue of the laws of the State of California.

Event of Default

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

Federal Securities

“Federal Securities” means United States of America Treasury bills, notes, bonds or certificates of indebtedness, or obligations for which the full faith and credit of the United States of America are unconditionally pledged for the payment of interest and principal, or securities evidencing direct ownership interests in such obligations or in specified portions of the interest on or principal of such obligations that are held by a custodian in safekeeping on behalf of the owners of such securities.

Fiscal Year

“Fiscal Year” means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other annual accounting period hereafter selected and designated by the Board of Directors as the Fiscal Year of the District.

Generally Accepted Accounting Principles

“Generally Accepted Accounting Principles” means the uniform accounting and reporting procedures set forth in publications of the American Institute of Certified Public Accountants or its successor and the Governmental Accounting Standards Board or its successor, or by any other generally accepted authority on such procedures, and includes, as applicable, the standards set forth by the Financial Accounting Standards Board or its successor.

Gross Revenues

“Gross Revenues” means all gross income and revenue received by the District from the ownership and operation of the System, determined in accordance with Generally Accepted Accounting Principles, including, without limiting the generality of the foregoing, (a) Direct Subsidy Payments, (b) all income, rents, rates, fees, connection fees, charges or other moneys derived from the services, facilities and commodities sold, furnished or supplied through the facilities of the System, (c) the earnings on and income derived from the investment of such income, rents, rates, fees, charges or other moneys, and (d) the proceeds derived by the District directly or indirectly from the sale, lease or other disposition of a part of the System as permitted in the Installment Sale Agreement; *provided, however*, that the term “Gross Revenues” shall not include customers’ deposits or any other deposits subject to refund until such deposits have become the property of the District.

Independent Certified Public Accountant

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

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

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

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

Installment Payment Date; 2020 Installment Payment Date

“Installment Payment Date” means any date on which Installment Payments are scheduled to be paid by the District under and pursuant to any Parity Obligation. “2020 Installment Payment Date” means any date on which 2020 Installment Payments are scheduled to be paid by the District under and pursuant hereto.

Installment Payments; 2020 Installment Payments

“Installment Payments” means the installment sale, rental or other periodic payments scheduled to be paid by the District under and pursuant to the Parity Obligations, including the 2020 Installment Payments. “2020 Installment Payments” means the Installment Payments scheduled to be paid by the District under and pursuant hereto.

Insurance Consultant

“Insurance Consultant” means (a) the Risk Manager for the District or (b) any insurance consultant or firm of insurance consultants generally recognized to be well qualified in insurance consulting matters relating to sanitation and other municipal systems.

Interest Payment Date

“Interest Payment Date” means a date on which an interest installment of the 2020 Installment Payment is due and payable, being June 1 and December 1 of each year to which reference is made, commencing on June 1, 2021.

Maintenance and Operation Costs

“Maintenance and Operation Costs” means the reasonable and necessary costs paid or incurred by the District for maintaining and operating the System, determined in accordance with Generally Accepted Accounting Principles, including all reasonable expenses of management and repair and other expenses necessary to maintain and preserve the System in good repair and working order, and including all administrative costs of the District that are charged directly or apportioned to the operation of the System, such as salaries and wages of employees, overhead, taxes (if any) and insurance premiums, and including all other reasonable and necessary costs of the District or charges required to be paid by it to comply with the terms hereof or of any resolution authorizing the execution of any Parity Obligation or of such Parity Obligation, such as compensation, reimbursement and indemnification of the other party to such Parity Obligation and fees and expenses of Independent Certified Public Accountants and Insurance Consultants, but excluding in all cases depreciation, replacement and obsolescence charges or reserves therefor, amortization of intangibles and intergovernmental transfers by the District which are not reimbursements or payments for overhead or other administrative expenses incurred by the District.

Maximum Annual Debt Service

“Maximum Annual Debt Service” means the greatest total Debt Service payable in any Fiscal Year during the period commencing with the next ensuing Fiscal Year and terminating with the Fiscal Year in which payments are due under the last outstanding Parity Obligation.

Maximum Annual 2020 Installment Payments

“Maximum Annual 2020 Installment Payments” means the greatest total 2020 Installment Payments payable in any 2020 Installment Payment Year during the period

commencing with the then current 2020 Installment Payment Year and terminating with the 2020 Installment Payment Year ending on December 1, ____.

Net Revenues

“Net Revenues” means for any period of computation, the amount of the Gross Revenues during such period less the amount of Maintenance and Operation Expenses during such period.

Opinion of Counsel

“Opinion of Counsel” means a written opinion of counsel of recognized national standing in the field of law relating to municipal bonds, appointed by the District.

Parity Obligations

“Parity Obligations” means all installment sale contracts, loan agreements, capital leases, repayment agreements or similar obligations of the District authorized and executed by the District under and pursuant to applicable law, the interest and principal and prepayment premium, if any, payments under and pursuant to which are payable from Net Revenues on a parity with the payment of the 2020 Installment Payments, including, but not limited to, the State Loan and the 2011 Installment Sale Agreement.

Person

“Person” means an individual, partnership, corporation (including a business trust), limited liability company, trust, unincorporated association, joint venture or other entity.

Project, 2020 Project

“Project” means any additions, betterments, extensions or improvements to the System designated by the Board of Directors as a Project, the design, acquisition or construction of which (together with the incidental costs and expenses related thereto) is to be financed by the proceeds of any Parity Obligations. “2020 Project” means the capital improvements described in Exhibit A hereto and such additions, substitutions and deletions as shall be specified in a Certificate of the District stating that such additions, substitutions or deletions constitute the 2020 Project.

Project Fund

“Project Fund” means the project fund established pursuant to the Trust Agreement.

Purchase Price

“Purchase Price” means the principal amount plus the interest thereon owed by the District to the Corporation under the conditions and terms hereof for the repayment of the

costs of the design, acquisition and construction of the 2020 Project and the incidental costs and expenses related thereto paid by the Corporation.

Revenue Fund

“Revenue Fund” means the Laguna County Sanitation Enterprise Fund maintained pursuant to Section 3.02.

Sanitation Service

“Sanitation Service” means the sanitation service furnished, made available or provided by the System.

Subordinate Obligations

“Subordinate Obligations” mean obligations of the District authorized and executed by the District under applicable law, the payments under and pursuant to which are payable from Net Revenues, subject and subordinate to the payment of the 2020 Installment Payments and to the payment of Parity Obligations. Such obligations may be payable from any fund established for the purpose of paying debt service on such Subordinate Obligations.

State Loan

“State Loan” means the Loan Contract between the State Water Resources Control Board and the District, dated August 16, 2001.

System

“System” means properties and assets, real and personal, tangible and intangible, of the District, now or hereafter existing, used or pertaining to sanitation service, including all additions, extensions, expansions, improvements and betterments thereto and equipments thereof, together with any other properties or assets hereafter determined by the Board of Directors to be part of the System.

Trust Agreement

“Trust Agreement” means the Trust Agreement dated as of September 1, 2020, by and among the Trustee, the Corporation and the District providing, for the execution and delivery of the Certificates, as originally executed and entered into and as it may from time to time be amended or supplemented in accordance with its terms.

Trustee

“Trustee” means U.S. Bank National Association, a national banking association duly organized and existing under and by virtue of the laws of the United States of America, at its Corporate Trust Office, as Trustee under the Trust Agreement, or any successor Trustee thereunder which may at any time be substituted in place of the original or any successor Trustee as provided in Section 8.02 of the Trust Agreement, at its Corporate Trust Office.

2020 Continuing Disclosure Agreement

“2020 Continuing Disclosure Agreement” means the Continuing Disclosure Agreement by and between the District and U.S. Bank National Association, as dissemination agent, dated _____.

2020 Installment Payment Year

“2020 Installment Payment Year” means the twelve-month period ending on December 1 of each year.

2011 Installment Sale Agreement

“2011 Installment Sale Agreement” means the installment sale agreement by and between the District and the County, dated May 17, 2011, as originally executed and as it may from time to time be amended or supplemented in accordance therewith.

2020 Installment Sale Agreement

“2020 Installment Sale Agreement” means this installment sale agreement by and between the District and the Corporation, dated as of September 1, 2020, as originally executed and as it may from time to time be amended or supplemented in accordance herewith.

ARTICLE II

THE 2020 PROJECT

Section 2.01. Design, Acquisition, Construction and Sale of the 2020 Project.

The Corporation hereby agrees to design, acquire and construct the 2020 Project for, and to sell the 2020 Project to, the District. In order to implement this provision, the Corporation hereby appoints the District as its agent for the purpose of such design, acquisition and construction, and the District hereby agrees to enter into such engineering, design and construction contracts and purchase orders as may be necessary to provide for the complete design, acquisition and construction of the 2020 Project. The District hereby agrees that as such agent it will cause the acquisition and construction of the 2020 Project to be diligently completed after the deposit of funds in the Project Fund and that it will use its best efforts to cause the design, acquisition and construction of the 2020 Project to be completed as soon as reasonably practicable. The Corporation hereby agrees to sell, and hereby sells, the 2020 Project to the District. The District hereby agrees to purchase, and hereby purchases, the 2020 Project from the Corporation on the terms and conditions specified herein. Notwithstanding the foregoing, it is hereby expressly understood and agreed that the Corporation shall be under no liability of any kind or character whatsoever for the payment of any costs or expenses incurred by the District (whether as agent for the Corporation or otherwise) for the acquisition and construction of the 2020 Project and that all such costs and expenses shall be paid by the District from moneys deposited in the Project Fund.

ARTICLE III

2020 INSTALLMENT PAYMENTS

Section 3.01. Purchase Price.

(a) The Purchase Price to be paid by the District to the Corporation hereunder is the sum of the principal amount of the District's obligation hereunder plus the interest to accrue on the unpaid balance of such principal amount from the date hereof over the term hereof, subject to prepayment as provided in Section 3.03.

(b) The principal amount of the Purchase Price to be paid by the District to the Corporation hereunder is _____ dollars (\$_____).

(c) The interest to accrue on the unpaid balance of such principal amount shall be paid by the District as and shall constitute interest paid on the principal amount of the Purchase Price obligation hereunder.

(d) Interest on the unpaid balance of the principal amount of the Purchase Price shall accrue from _____, 2020, on the principal component of each 2020 Installment Payment at the following rates:

<u>2020 Installment Payment Date</u>	<u>Principal Amount of 2020 Installment Payments</u>	<u>Interest Rate (per annum)</u>
	[to come]	

Interest shall be computed on the basis of a 360-day year comprised of twelve 30-day months. Principal and interest shall be payable in the amounts and on the dates set forth on the installment payment schedule attached hereto as Exhibit B.

Section 3.02. Payment of 2020 Installment Payments. The District shall, subject to prepayment as provided in Section 3.03, pay the Corporation the Purchase Price, without offset or deduction of any kind, by paying the principal installments of the 2020 Installment Payments semiannually on each December 1, commencing December 1, _____, together with interest installments of the 2020 Installment Payments on each June 1 and December 1, commencing June 1, 2021.

The obligation of the District to pay the Purchase Price by paying the 2020 Installment Payments is, subject to Section 8.01, absolute and unconditional, and until such time as the 2020 Installment Payments shall have been paid in full (or provision for the payment thereof shall have been made pursuant to Section 7.01), the District will not discontinue or suspend any 2020 Installment Payments required to be paid by it under this section when due, whether or not the System or any part thereof is operating or operable, or its use is suspended, interfered with, reduced, curtailed or terminated in whole or in part, and such payments shall not

be subject to reduction whether by offset or otherwise and shall not be conditional upon the performance or nonperformance by any party to any agreement for any cause whatsoever.

In order to carry out and effectuate the obligation of the District contained herein to pay the Purchase Price by paying the 2020 Installment Payments, the District agrees and covenants that all Gross Revenues received by it shall be deposited when and as received in the Laguna County Sanitation Enterprise Fund, which fund has been established by the District and is hereby pledged and a security interest is granted therein and which fund the District agrees and covenants to maintain so long as any 2020 Installment Payments remain unpaid, and all money on deposit in the Revenue Fund shall be applied and used only as provided herein. The District shall pay all Maintenance and Operation Costs (including amounts reasonably required to be set aside in contingency reserves for Maintenance and Operation Costs the payment of which is not then immediately required) from the Revenue Fund as they become due and payable, and all remaining money on deposit in the Revenue Fund shall be set aside and deposited by the District at the following times in the following order of priority:

On or before each date on which a 2020 Installment Payment becomes due and payable under this 2020 Installment Sale Agreement, the District shall, from the money in the Revenue Fund, transfer to the Trustee, a sum equal to the 2020 Installment Payments becoming due and payable under this 2020 Installment Sale Agreement on such due date, except that no such deposit need be made to the extent the Trustee then holds money for such purpose available to pay the 2020 Installment Payment becoming due and payable under this 2020 Installment Sale Agreement on such date. The District shall also, from such moneys in the Revenue Fund, pay to the party entitled thereto or transfer or cause to be transferred to any applicable debt service or other payment fund or account for any Parity Obligations, without preference or priority between transfers made pursuant to this sentence and the preceding sentence, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, on the dates specified in the proceedings relating to such Parity Obligations, the sum or sums required to be paid or deposited in such debt service or other payment fund or account with respect to principal, premium, if any, and interest on Parity Obligations in accordance with the terms of such Parity Obligations.

After making the foregoing transfers hereinabove required to be made, or, if sooner, at such time as amounts remaining on deposit in the Revenue Fund shall be sufficient to make the remaining transfers hereinabove required to be made in such Fiscal Year with respect to 2020 Installment Payments and Parity Obligations, the District shall apply any remaining money in the Revenue Fund for any lawful purpose of the District, including without limitation, payment of any Subordinate Obligations.

The District shall distribute Net Revenues available for Outstanding 2020 Installment Payments and debt service on all Outstanding Parity Obligations on a pro rata basis without regard to whether each such Parity Obligations has a funded debt service reserve or a surety bond or other similar funding instrument.

Section 3.03. Prepayment of 2020 Installment Payments. (a) The District may prepay from any source of available funds as a whole or in part on any date, on or after December 1, ____, all or any part of the principal amount of the unpaid 2020 Installment Payments, in such order of prepayment as the District may determine (or, if the District fails to designate the order of prepayment, in inverse order of Installment Payment Date and by lot within an Installment Payment Date), at a prepayment price equal to the sum of the principal amount prepaid, plus accrued interest to the date of prepayment, without premium.

(b) The District may prepay the 2020 Installment Payments on any date as a whole or in part, from amounts deposited in the Insurance Proceeds Fund pursuant to Section 6.10 hereof, at a prepayment price equal to the sum of the principal amount to be prepaid plus accrued interest thereon to the date of prepayment.

(c) Before making any prepayment pursuant to this section, the District shall give written notice to the Corporation describing such event and specifying the date on which the prepayment will be paid and the order thereof, which date shall be not less than fifteen (15) days nor more than sixty (60) days from the date such notice is given; provided, that notwithstanding any such prepayment, the District shall not be relieved of its obligations hereunder, including specifically its obligations under this article, until the Purchase Price shall have been fully paid (or provision for payment thereof shall have been made pursuant to Article VII).

Section 3.04. Pledge of Net Revenues. All Net Revenues are hereby irrevocably pledged to the payment of the 2020 Installment Payments; provided, that out of the Net Revenues there may be apportioned such sums for such purposes as are permitted by this article. This pledge shall constitute a lien on the Net Revenues for the payment of the 2020 Installment Payments and Parity Obligations.

Section 3.05. Obligations Absolute. The payment obligations of the District under this 2020 Installment Sale Agreement shall be unconditional and irrevocable and shall be paid strictly in accordance with the terms of this 2020 Installment Sale Agreement.

ARTICLE IV

PARITY OBLIGATIONS

Section 4.01. Conditions for the Execution of Parity Obligations. The District shall not incur any obligation, the payment of which is payable from and secured by a lien and charge on the Net Revenues prior to the lien and charge on Net Revenues securing the 2020 Installment Payments under this 2020 Installment Sale Agreement. The District may at any time execute and deliver any Parity Obligation, the payment of which is payable from and secured by a lien and charge on the Net Revenues on a parity with the lien and charge on Net Revenues securing the 2020 Installment Payments due under this 2020 Installment Sale Agreement, provided:

(a) Either -

(1) as evidenced by a Certificate of the District, during the immediately preceding twelve (12) consecutive calendar months, the Net Revenues were at least equal to one hundred twenty-five percent (125%) of the Maximum Annual Debt Service for all Outstanding 2020 Installment Payments and all Outstanding Parity Obligations plus the Parity Obligation proposed to be executed; or

(2) as evidenced by a Certificate of the District, the projected Net Revenues during the first Fiscal Year in which Debt Service on the Parity Obligation is payable (other than from proceeds of the Parity Obligations), is at least equal to one hundred twenty-five percent (125%) of the Maximum Annual Debt Service for all Outstanding 2020 Installment Payments and all Outstanding Parity Obligations plus the Parity Obligation proposed to be executed;

(b) The proceeds of such Parity Obligation proposed to be executed shall be used solely to finance or refinance (including reimbursement to the District of amounts advanced for such costs) one or more additions, betterments or improvements to the System as designated by the District and to pay any incidental costs and expenses related thereto including the costs of issuance, execution or delivery of such proposed Parity Obligation;

(c) There shall have been delivered to the District an Opinion of Counsel substantially to the effect that (1) the Parity Obligation has been duly executed and delivered by the District and is a valid and binding obligation of the District, and (2) the Parity Obligation has been duly and validly authorized and issued in accordance herewith; and

(d) The District is not in default under this 2020 Installment Sale Agreement.

The projections set forth in clause (a)(2) above may take into account only rate increases for Sanitation Service adopted by the Board of Directors prior to the date of issuance of such Parity Obligations and which are scheduled to be effective during the first Fiscal Year in which Debt Service on such Parity Obligation is payable (other than from proceeds of such Parity Obligation).

Notwithstanding the foregoing provisions, neither clause (a) nor clause (b) above shall limit the ability of the District to execute any Parity Obligations at any time to refund any Outstanding 2020 Installment Payments or Outstanding Parity Obligations if the annual Debt Service for each Fiscal Year during which such Parity Obligation is Outstanding will not be increased by reason of the issuance of such Parity Obligation.

Section 4.02. Subordinate Obligations. The District may incur Subordinate Obligations without meeting any of the tests set forth in Section 4.01.

ARTICLE V

REPRESENTATIONS AND WARRANTIES

Section 5.01. Existence and Power. The District is a special district duly organized and existing under and by virtue of the laws of the State of California and has the power and authority to own its properties and to carry on its businesses as now being conducted and as currently contemplated to be conducted hereafter.

Section 5.02. Due Authorization.

(a) The District has taken all necessary action to authorize this 2020 Installment Sale Agreement, and to execute, deliver and perform its obligations under this 2020 Installment Sale Agreement.

(b) The District is duly authorized and licensed to own its property (real, personal or mixed) and to operate its business under the laws, rulings, regulations and ordinances of all federal, state and local governing bodies having the jurisdiction to license or regulate such property or business activity and the departments, agencies and political subdivisions thereof, and the District has obtained all requisite approvals of all such governing bodies required to be obtained for such purposes. All authorizations and approvals necessary for the District to enter into this 2020 Installment Sale Agreement and to perform the transactions contemplated hereby and to conduct its business activities and own its property have been obtained and remain in full force and effect and are subject to no further administrative or judicial review. No other authorization or approval or other action by, and no notice to or filing with, any governmental entity is required for the due execution, delivery and performance by the District of this 2020 Installment Sale Agreement.

Section 5.03. Valid and Binding Obligations. This 2020 Installment Sale Agreement has been duly executed and delivered by one or more duly authorized officers of the District and is a legal, valid and binding obligation of the District enforceable in accordance with its terms, except as such enforceability may be limited by (i) the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar law affecting creditors' rights generally, and (ii) general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

Section 5.04. Noncontravention; Compliance with Law.

The execution, delivery and performance of this 2020 Installment Sale Agreement in accordance with its terms does not and will not (i) exceed the authority of the District, (ii) require any consent or approval of any creditor of the District, (iii) conflict with, result in a breach of or constitute a default under any contract to which the District is a party or by which it or any of its property may be bound or (iv) result in or require the creation or imposition of any lien upon or with respect to the Net Revenues except the lien on the Net Revenues expressly created by this 2020 Installment Sale Agreement.

ARTICLE VI

COVENANTS OF THE DISTRICT

Section 6.01. Compliance with 2020 Installment Sale Agreement. The District will punctually pay the 2020 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 the 2020 Installment Sale 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 2020 Project or the System, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of California or any political subdivision of either or any failure of the Corporation to observe or perform any agreement, condition, covenant or term 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 Corporation 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, lockouts, lack of transportation facilities, fire, explosion, or acts or regulations of governmental authorities.

The District shall not supplement, amend, modify or terminate any of the terms of this Agreement, or consent to any such supplement, amendment, modification or termination, without the written consent of the Trustee. The Trustee shall give such written consent only if (a) in an Opinion of Counsel furnished to the Trustee, such supplement, amendment, modification or termination will not materially adversely affect the interests of the registered owners of the respective 2020 Certificates or result in any material impairment of the security hereby given for the payment of such Certificates, or (b) the Trustee first obtains the written consent of the registered owners of a majority in principal amount of the 2020 Certificates then outstanding to such supplement, amendment, modification or termination.

The District will faithfully observe and perform all the agreements, conditions, covenants and terms contained in the Trust Agreement required to be observed and performed by it, and it is expressly understood and agreed by and among the parties to this Agreement and the Trust Agreement that each of the agreements, conditions, covenants and terms contained in each such agreement is an essential and material term of the obligation of the District to pay the Purchase Price pursuant to, and in accordance with, and as authorized under law and this Agreement.

Section 6.02. Use of Proceeds of 2020 Certificates. The Corporation and the District agree that the proceeds of the 2020 Certificates will be used by the District, as agent for the Corporation, to pay the costs of the acquisition and construction of the 2020 Projects and to pay the incidental costs and expenses related thereto as provided herein and in the Trust Agreement.

Section 6.03. Against Encumbrances. The District will pay or cause to be paid when due all sums of money that may become due or purporting to be due for any labor,

services, materials, supplies or equipment furnished, or alleged to have been furnished, to or for the District in, upon, about or relating to the System and will keep the System free of any and all liens against any portion of the System. In the event any such lien attaches to or is filed against any portion of the System, the District will cause each such lien to be fully discharged and released at the time the performance of any obligation secured by any such lien matures or becomes due, except that if the District 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 District will forthwith pay or cause to be paid and discharged such judgment. The District will, to the maximum extent permitted by law, indemnify and hold the Corporation and the Trustee harmless from, and defend each of them against, any claim, demand, loss, damage, liability or expense (including attorneys' fees) as a result of any such lien or claim of lien against any portion of the System.

The District may pledge, encumber or otherwise secure its obligations with the Net Revenues, provided, that in all instances any such pledge, lien or security satisfies the requirements of Section 4.01 or is wholly subordinate and junior to the obligations of the District contained herein.

Section 6.04. Against Sale or Other Disposition of Property. The District may sell, transfer or otherwise dispose of any of the facilities of the System or any real or personal property comprising a part of the System only if such property subject to such sale, transfer or other disposition is not material to the operation of the System, or shall have become unserviceable, inadequate, obsolete or unfit to be used in the operation of the System, or is no longer necessary, material or useful to the operation of the System and if such transfer will not reduce the Net Revenues below the requirements to be maintained under Section 6.14.

Section 6.05. Tax Covenants. The District will not directly or indirectly use or permit the use of any proceeds of the obligation provided herein or any other funds of the District or take or omit to take any action that would cause such obligation to be an "arbitrage bond" within the meaning of Section 148(a) of the Code or a "federal-guaranteed obligation" within the meaning of Section 149(b) of the Code or a "private activity bond" as described in Section 141 of the Code.

To that end, as long as any 2020 Installment Payments are unpaid, the District will comply with all requirements of such sections of the Code to the extent applicable to the obligations provided herein.

Section 6.06. Acquisition and Construction of the 2020 Project. The District will take all necessary and appropriate steps to acquire and construct the 2020 Project, as agent of the Corporation.

Section 6.07. Maintenance and Operation of the System; Budgets. The District will maintain and preserve the System in good repair and working order at all times and will operate the System in an efficient and economical manner and will pay all Maintenance and Operation Costs as they become due and payable.

Not later than August 30 of each year, the District will adopt a budget approved by the Board of Directors setting forth the estimated Maintenance and Operation Costs and the estimated payments for Parity Obligations for the then current Fiscal Year; provided, that any such budget may be amended at any time during any Fiscal Year.

Section 6.08. Compliance with Contracts. The District will comply with, keep, observe and perform all agreements, conditions, covenants and terms, express or implied, required to be performed by it contained in all contracts for the use of the System and all other contracts affecting or involving the System to the extent that the District is a party thereto.

Section 6.09. Payment of Claims. The District will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien on the Net Revenues or any part thereof prior or superior to the obligation to make the 2020 Installment Payments as provided herein or which might impair the security of the 2020 Installment Payments.

Section 6.10. Insurance.

(a) The District will procure and maintain such insurance relating to the System which it shall deem advisable or necessary to protect its interests and the interests of the Corporation, which insurance shall afford protection in such amounts and against such risks as are usually covered in connection with municipal sanitation systems similar to the System; provided, that any 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 sanitation systems similar to the System and is, in the opinion of an Insurance Consultant, financially sound. The Corporation acknowledges that the District is presently self-insured.

(b) The proceeds of any casualty insurance with respect to the 2020 Project shall be deposited in a special fund which the District shall establish and maintain to be known as the "Insurance Proceeds Fund." Within one hundred eighty (180) days of payment of such proceeds, the District shall indicate to the Trustee in a Certification whether it elects to repair or replace the 2020 Project in whole or in part. In the event that the District elects to repair or replace the 2020 Project, it shall furnish to the Trustee, concurrently with such Certification, plans of the contemplated repair or replacement, accompanied by a certificate of an architect or other qualified expert estimating the reasonable cost of such repair or replacement and the time required to complete such work and shall deliver to the Trustee a Certification of the District stating that amounts in the Insurance Proceeds Fund, together with investment income reasonably expected to be received with respect thereto and any other funds available or reasonably expected to become available therefor shall be sufficient to pay the contemplated repair or replacement in accordance with said plans. Subject to subsection (c) of this Section, moneys in the Insurance Proceeds Fund shall be disbursed by the District for the purposes of repairing or replacing the 2020 Project in whole or in part.

(c) In the event the District shall not elect to repair or replace the 2020 Project damaged or destroyed in whole, as provided in subsection (b) of this Section, the District shall transfer to the Trustee all amounts, or the amounts in excess of those needed to pay the

contemplated repair or replacement (if any), as the case may be, in the Insurance Proceeds Fund for deposit in the Prepayment Account held under the Trust Agreement.

Section 6.11. Accounting Records and Financial Statements.

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

(b) The District will prepare and file with the Trustee annually within two hundred forty (240) days after the close of each Fiscal Year (commencing with the Fiscal Year ending June 30, 2020) the Comprehensive Annual Financial Report of the County, which includes financial statements of the District, for the preceding Fiscal Year prepared in accordance with generally accepted accounting principles, together with an Accountant's Report thereon.

Section 6.12. Protection of Security and Rights of the Corporation and the Trustee. The District will preserve and protect the security hereof and the rights of the Corporation and the Trustee to the 2020 Installment Payments hereunder and will warrant and defend such rights against all claims and demands of all persons.

Section 6.13. Payment of Taxes and Compliance with Governmental Regulations. The District will pay and discharge all taxes, assessments and other governmental charges which may hereafter be lawfully imposed upon the System or any part thereof when the same shall become due. The District will duly observe and conform with all valid regulations and requirements of any governmental authority relative to the operation of the System or any part thereof, but the District shall not be required to comply with any regulations or requirements so long as the validity or application thereof shall be contested in good faith.

Section 6.14. Amount of Rates, Fees and Charges. The District will at all times fix, prescribe and collect rates and charges for the Sanitation Service during each Fiscal Year which will be at least sufficient to yield Net Revenues for such Fiscal Year at least equal to one hundred twenty-five percent (125%) of Debt Service for such Fiscal Year. The District may make adjustments from time to time in such fees and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates and charges then in effect unless the Net Revenues from such reduced rates and charges will at all times be sufficient to meet the requirements of this Section.

Section 6.15. Further Assurances. The District will adopt, deliver, execute and make any and all further assurances, instruments and resolutions as may be reasonably necessary or proper to carry out the intention or to facilitate the performance hereof and for the better assuring and confirming unto the Corporation of the rights and benefits provided to it herein.

ARTICLE VII

EVENTS OF DEFAULT AND REMEDIES

Section 7.01. Events of Default and Acceleration of Principal. 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 2020 Installment Payment or of any Parity Obligation when and as the same shall become due and payable;

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

(3) if default shall be made by the District in the performance of any of the agreements or covenants contained in any Parity Obligation required to be performed by it, other than as set forth in (a) above, and such default shall have continued after any notice and grace period provided by such Parity Obligation;

(4) if the District 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 District seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the District or of the whole or any substantial part of its property;

then and in each and every such case during the continuance of such Event of Default, the Trustee may, by notice in writing to the District, declare the entire principal amount of the unpaid 2020 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 Section is subject to the condition, however, that if at any time after the entire amount of the unpaid principal amount of the 2020 Installment Payments and the accrued interest thereon shall have been so declared due and payable and before any judgment or decree for the payment of the money due shall have been obtained or entered, the District shall deposit with the Trustee a sum sufficient to pay the unpaid amount of the 2020 Installment Payments due otherwise than as a result of such declaration and in the applicable debt service fund(s) the unpaid principal amount of any payments due under any Parity Obligation referred to in clause (1) above due and payable prior to such declaration and the accrued interest thereon, with interest on such overdue installments at the rate or rates applicable to such unpaid principal amounts of the 2020 Installment Payments if paid in accordance with then terms and on the Parity Obligations in accordance with their terms, and the District shall have paid the reasonable expenses of the Corporation, the Trustee and any fiduciaries for Parity Obligations resulting from such declaration, and any and all other defaults

known to the Trustee (other than in the payment of the entire amount of the unpaid 2020 Installment Payments due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then and in every such case the Trustee, by written notice to the District, may rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon.

Section 7.02. Other Remedies. The Trustee 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 District or any director, officer or employee thereof, and to compel the District or any such director, officer or employee to perform and carry out its or his duties under 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 which are unlawful or violate the rights of the Corporation or the Trustee; or
- (c) by suit in equity upon the happening of an Event of Default to require the District and its directors, officers and employees to account as the Trustee of an express trust.

Section 7.03. Non-Waiver. Nothing in this article or in any other provision hereof shall affect or impair the obligation of the District, which is absolute and unconditional, to pay the 2020 Installment Payments from the Net Revenues to the Trustee at the respective due dates or upon prepayment, or shall affect or impair the right of the Trustee, 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 Trustee shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Trustee 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 Trustee by law or by this article may be enforced and exercised from time to time and as often as shall be deemed expedient by the Trustee.

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

Section 7.04. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Trustee is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by law.

ARTICLE VIII

DISCHARGE OF OBLIGATIONS

Section 8.01. Discharge of Obligations.

(a) If the District shall pay or cause to be paid all the 2020 Installment Payments at the times and in the manner provided herein, the right, title and interest of the Corporation herein and the obligations of the District hereunder shall thereupon cease, terminate, become void and be completely discharged and satisfied.

(b) Any unpaid principal installment of the 2020 Installment Payments shall on its payment date or date of prepayment be deemed to have been paid within the meaning of and with the effect expressed in subsection (a) of this section if the District makes payment of such 2020 Installment Payments in the manner provided herein.

(c) All or any portion of unpaid principal installments of the 2020 Installment Payments shall, prior to their payment dates or dates of prepayment, be deemed to have been paid within the meaning of and with the effect expressed in subsection (a) of this section if (i) notice is provided by the District to the Trustee as required by the Trust Agreement, (ii) there shall have been deposited with the Trustee either money in an amount which shall be sufficient, or Federal Securities which are not subject to redemption prior to maturity, the interest on and principal of which when paid will provide money which, together with money, if any, deposited with the Trustee, shall be sufficient to pay when due the principal installments of such 2020 Installment Payments or such portions thereof on and prior to their payment dates or their dates of prepayment, as the case may be, and the prepayment premiums, if any, applicable thereto, as evidenced by a report of an Independent Certified Public Accountant, and (iii) an opinion of nationally recognized bond counsel is filed with the Trustee to the effect that the action taken pursuant to this subsection will not cause the interest on the 2020 Certificates to be includable in gross income under the Code for federal income tax purposes.

(d) After the payment of all 2020 Installment Payments and prepayment premiums, if any, as provided in this section, and payment of all fees and expenses of the Trustee, the Trustee, upon request of the District, shall cause an accounting, with respect to amounts received, disbursed or held by the Trustee for such period or periods as may be requested by the District to be prepared and filed with the District and the Corporation and shall execute and deliver to the District and the Corporation all such instruments as may be necessary or desirable to evidence such total discharge and satisfaction of the 2020 Installment Sale Agreement, and the Trustee shall pay over and deliver to the District, as an overpayment of 2020 Installment Payments, all such money or investments held by it pursuant hereto other than such money and such investments as are required for the payment or prepayment of the 2020 Installment Payments, which money and investments shall continue to be held by the Trustee in trust for the payment of the 2020 Installment Payments and shall be applied by the Trustee pursuant to the Trust Agreement, and for the payment of the fees and expenses of the Trustee.

ARTICLE IX

MISCELLANEOUS

Section 9.01. Liability of District Limited to Net Revenues. Notwithstanding anything contained herein, the District shall not be required to advance any moneys derived from any source of income other than the Net Revenues for the payment of the 2020 Installment Payments or for the performance of any agreements or covenants required to be performed by it contained herein. The District 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 District for such purpose.

The obligation of the District to make the 2020 Installment Payments is a special obligation of the District payable solely from the Net Revenues as provided herein, and does not constitute a debt of the District or of the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction.

Section 9.02. Benefits of 2020 Installment Sale Agreement. Nothing contained herein, expressed or implied, is intended to give to any person other than the Corporation, the District or the Trustee 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 Corporation or the District or the Trustee shall be for the sole and exclusive benefit of the other parties.

Section 9.03. Successor Is Deemed Included in all References to Predecessor. Whenever either the Corporation or the District or the Trustee is named or referred to herein, such reference shall be deemed to include the successor to the powers, duties and functions that are presently vested in the Corporation or the District or the Trustee, and all agreements and covenants required hereby to be performed by or on behalf of the Corporation or the District or the Trustee shall bind and inure to the benefit of the respective successors thereof whether so expressed or not.

Section 9.04. Waiver of Personal Liability. No director, officer or employee of the District shall be individually or personally liable for the payment of the 2020 Installment Payment, but nothing contained herein shall relieve any director, officer or employee of the District from the performance of any official duty provided by any applicable provisions of law or hereby.

Section 9.05. Article and Section Headings, Gender and References. The headings or titles of the several articles and sections hereof and the table of contents appended hereto shall be solely for convenience of reference and shall not affect the meaning, construction or effect hereof, and words of any gender shall be deemed and construed to include all genders. All references herein to “Articles,” “Sections,” “Exhibits” and other subdivisions or clauses are to the corresponding articles, sections, exhibits, subdivisions or clauses hereof; and the words “hereby,” “herein,” “hereof,” “hereto,” “herewith” and other words of similar import refer to the 2020 Installment Sale Agreement as a whole and not to any particular article, section, exhibit, subdivision or clause hereof.

Section 9.06. 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 Corporation or the District 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 Corporation and the District hereby declare that they would have executed the 2020 Installment Sale 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 9.07. Assignment. The 2020 Installment Sale Agreement and any rights hereunder shall be assigned by the Corporation to the Trustee as provided in the Assignment Agreement; to which assignment the District hereby expressly acknowledges and consents.

Section 9.08. Net Contract. The 2020 Installment Sale Agreement shall be deemed and construed to be a net contract, and the District shall pay absolutely net during the term hereof the 2020 Installment Payments and all other payments required hereunder, free of any deductions and without abatement, diminution or set-off whatsoever.

Section 9.09. California Law. The 2020 Installment Sale Agreement shall be construed and governed in accordance with the laws of the State of California.

Section 9.10. Funds. Any fund required to be established and maintained herein by the District may be established and maintained in the accounting records of the District either as an account or a fund, and may, for the purpose of such accounting records, any audits thereof and any reports or statements with respect thereto, be treated either as an account or a fund; but all such records with respect to any such fund shall at all times be maintained in accordance with sound accounting practice.

Section 9.11. Notices. All written notices to be given hereunder shall be given by mail to the party entitled thereto at its address set forth below, or at such other address as such party may provide to the other party in writing from time to time, namely:

If to the District:

Laguna County Sanitation District
105 East Anapamu Street, Room 109
Santa Barbara, California 93101
Attention: Treasurer-Tax Collector

with a copy to: County Counsel, Room 201

If to the Corporation:

Santa Barbara County Finance Corporation, Inc.
105 East Anapamu Street, Room 201
Santa Barbara, California 93101
Attention: County Counsel

with a copy to: Treasurer-Tax Collector, Room 109

If to the Trustee:

U.S. Bank National Association
Attn.: Global Corporate Trust
633 W. Fifth Street, 24th Floor
Los Angeles, CA 90071
Ref: Laguna County Sanitation District Sanitation
System Revenue Certificates of Participation, Series 2020

Section 9.12. Effective Date. The 2020 Installment Sale Agreement shall become effective upon its execution and delivery, and shall terminate when the Purchase Price shall have been fully paid.

Section 9.13. Execution in Counterparts. The 2020 Installment Sale Agreement may be executed in several counterparts, each of which shall be deemed an original, and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have executed and attested the 2020 Installment Sale Agreement by their officers thereunto duly authorized as of the day and year first written above.

LAGUNA COUNTY SANITATION
DISTRICT

By _____
Chair of the Board of Directors

SANTA BARBARA COUNTY FINANCE
CORPORATION, INC.

By _____

[SEAL]

ATTEST:

Clerk of the Board

By _____

EXHIBIT A
THE 2020 PROJECT

[to come]

