

Appendix D-1

Installment Purchase Agreement between the
City of Ontario and the WFA

INSTALLMENT PURCHASE AGREEMENT RELATING TO
WATER FACILITIES AUTHORITY WATER TREATMENT PLANT

by and between

WATER FACILITIES AUTHORITY, as Seller

and

CITY OF ONTARIO, as Purchaser

Dated as of October 1, 1985

TABLE OF CONTENTS

		<u>PAGE</u>
ARTICLE I		
RECITALS		
101	Status and Powers of Authority	1
102	Status and Powers of Purchaser	1
103	Purpose of Agreement	2
104	Financing the Project.....	2
105	Acknowledgment of Assignment of Agreement	2
106	Acknowledgment of Status of Project	3
ARTICLE II		
DEFINITIONS AND GENERAL PROVISIONS		
201	Definitions in General	3
202	Rules of Construction	13
ARTICLE III		
SALE OF CAPACITY IN THE PROJECT; PURCHASE PRICE		
301	Deposit of Moneys	13
302	Construction of Project	14
303	Payment of Project Cost	14
304	Sale of Capacity in the Project; Term	15
305	Installment Payments	15
306	Interest Component	17
307	Payment in Lawful Money; No Set-Off	17
308	Pledge of Revenues	18
309	Title	18
310	Disclaimer of Warranties	18
311	Manufacturers' Warranties	18
312	Purchasers' Option to Prepay the Installment Payments	18 19
313	Arbitrage Covenant	19
ARTICLE IV		
COVENANTS RELATING TO THE PROJECT		
401	Maintenance and Operation of the Project	20
402	Utilities	20
403	Public Liability Insurance	20
404	Workers' Compensation Insurance	20
405	Fire and Special Extended Coverage Endorsement	20 20

	<u>PAGE</u>
406 Form of Insurance Policies; Delivery	21
407 Inability to Obtain Insurance	22
408 Application of Net Proceeds of Insurance	22
409 Application of Net Proceeds of Condemnation ...	23
410 Payment of Installment Payments	24
411 Compliance with this Agreement	24
412 Payment of Taxes	24
413 Observance of Laws and Regulations	25
414 Maintain and Preserve the Project	25
415 Other Liens	25
416 Against Encumbrances of Sales	26
417 Prosecution and Defense of Suits	26
418 Recordation and Filing	27
419 Waiver of Laws	27
420 Compliance with Conditions Precedent	27
421 Power to Enter Into Agreements	27
422 Further Assurances	27
423 Seller Not Liable	27
424 Indemnification Due to Trustee	28
425 Authority to Operate the Project	28
426 Operation and Equipping of the Project	29
427 Furnishing Additional Information	27
428 Quiet Enjoyment	29
429 Restriction Against Pledge	29
430 Assignment by Seller	29
431 No Violation of Other Agreements	29

ARTICLE V

WATER REVENUES; COVENANTS

501 Water Revenue Fund	30
502 Covenants	30

ARTICLE VI

EVENTS OF DEFAULT AND REMEDIES

601 Events of Default Defined	35
602 Remedies on Default	36
603 Suits at Law or in Equity and Mandamus	38
604 Non-Waiver	39
605 Remedies Not Exclusive	39
606 Status Quo	30

ARTICLE VII

PAGE

ADMINISTRATIVE PROVISIONS

701	Preservation and Inspection of Documents	40
702	Parties of Interest	40
703	No Recourse Under Agreement	40
704	Notices	40
705	Binding Effect	42
706	Severability	42
707	Headings	42
708	Applicable Law	42
709	Seller and Purchaser Representatives.....	42
710	Form of Certificates of Officers	43
711	Counterpart	43

Exhibit A: Description of the Project
Exhibit B: Schedule of Installment Payments

INSTALLMENT PURCHASE AGREEMENT
RELATING TO WATER FACILITIES AUTHORITY
WATER TREATMENT PLANT

THIS INSTALLMENT PURCHASE AGREEMENT RELATING TO WATER TREATMENT PLANT, made and entered into as of October 1, 1985, by and between the City of Ontario (herein called the "Purchaser"), a municipal corporation organized and existing under the laws of the State of California, and the Water Facilities Authority, a joint exercise of powers authority (herein called "Seller"):

W I T N E S S E T H :

In consideration of the mutual covenants hereinafter contained and for other valuable consideration, the parties hereto do agree as follows:

ARTICLE I

RECITALS

101. Status and Powers of Authority. Seller is a California joint exercise of powers authority organized and existing under the joint exercise of powers law, Chapter 5, Division 7, Title 1 (commencing at Section 6500) of the Government Code of the State of California, and is authorized to acquire and construct the Project, to sell capacity therein to the Purchaser and perform the actions and duties more particularly described herein. The member entities comprising Seller are the Cities of Chino, Ontario and Upland, San Bernardino County Waterworks District No. 8, the Monte Vista Water District, and the Cucamonga County Water District. The Cities of Chino, Ontario and Upland, San Bernardino County Waterworks District No. 8, and the Monte Vista Water District have formed Project Committee No. 1 of Seller (collectively, the "Purchasers"), each of which will purchase certain capacity rights in the Project to be constructed by Seller. Following completion of construction of the Project, the Project is to be owned, operated and maintained by Seller for the benefit of the Purchasers.

102. Status and Powers of Purchaser. Purchaser is a municipal corporation organized and existing under the laws of the State of California.

Purchaser is desirous of purchasing capacity in the Project in order to provide treated water to its customers and thereby to further its public purpose. Purchaser is authorized to purchase real and personal property for the common benefit in order to achieve its public purposes.

Pursuant to Resolution No. _____ of the City Council of Purchaser adopted on _____, 1985, Purchaser is authorized to enter into this Agreement.

103. Purpose of Agreement. Purchaser desires to purchase certain capacity in the Project from Seller and Seller desires to sell such capacity in the Project to Purchaser in consideration of the payment by Purchaser of installments of principal and interest on the unpaid purchase price therefor. The capacity to be acquired by the Purchaser in each portion of the Project, together with the capacities to be acquired by the other Purchasers, and a description of the Project, is set forth in Exhibit A attached hereto and by this reference incorporated herein. The purpose of this Agreement is to effectuate said transaction by setting forth the terms and conditions relating thereto.

104. Financing the Project. To provide Seller with the funds to finance the construction of the project, Seller will assign its right to secure the Installment Payments from the Purchasers to the Bank of America National Trust and Savings Association as Trustee and the Trustee will issue Certificates of Participation secured by the Installment Payments and the proceeds from the sale of the Certificates of Participation will be deposited with the Trustee for the payment of Costs. The Letter of Credit Bank will pay an amount equal to the Installment Payments due on any Interest Payment Date to the Trustee by draws on the Letter of Credit. The Purchaser agrees to pay the Installment Payments and other amounts due hereunder to Seller and the Seller agrees to pay the Installment Payments to the Letter of Credit Bank in satisfaction of the reimbursement obligations of Seller under the Reimbursement Agreement.

105. Acknowledgement of Assignment Agreement. Seller and Purchaser acknowledge that Seller on the date hereof is entering into an Assignment Agreement Relating to Water Facilities Authority Water Treatment Plant with the Letter of Credit Bank and with Bank of America National Trust and Savings Association, as Trustee (the "Trustee"); that pursuant to said Assignment Agreement, Seller is assigning and transferring to the Letter of Credit Bank and to the Trustee all of its rights under this Agreement, including, among others, its rights to exercise its remedies to enforce the receipt of such Installment Payments, as such rights and remedies are provided

by this Agreement; and that the Letter of Credit Bank and the Trustee as their interests appear constitute the assignees of Seller as described herein.

106. Acknowledgement of Status of Project. Seller and Purchaser acknowledge that Seller is the owner of the Property more particularly described in Exhibit B attached hereto and by this reference incorporated herein and will be the owner of the Project, which includes the Property, and will retain title to the Project and the Purchaser will hereunder acquire only capacity in the Project.

ARTICLE II

DEFINITIONS AND GENERAL PROVISIONS

201. Definitions in General. The terms defined in this Section shall, for all purposes of this Agreement and the Trust Agreement, have the meanings ascribed to them, unless the context clearly requires some other meaning.

Acceptance Certificate shall mean a certificate of an Authorized Representative of the Seller to the effect that the Project has been completed substantially in conformity with the plans and specifications therefor.

Adjusted Interest Rate shall mean the interest rate on the Certificates determined and established pursuant to Section 317 of the Trust Agreement.

Agreements shall mean, collectively, the Installment Purchase Agreements Relating to Water Facilities Authority Water Treatment Plant, each dated as of October 1, 1985, between the Seller and each of the Purchasers, and any and all modifications, alterations, amendments and supplements thereto made in accordance with the provisions of each Installment Purchase Agreement and the Trust Agreement, as assigned to the Trustee under the Assignment Agreement. The term Agreement shall individually refer to the Chino Installment Purchase Agreement, the Ontario Installment Purchase Agreement, the Upland Installment Purchase Agreement, the County Installment Purchase Agreement, or the Monte Vista Installment Purchase Agreement, depending on how the term is used in context.

Agreements Term shall mean the period during which the Agreements are in effect as specified in the Agreements.

Alternate Security means any guaranty agreement, surety agreement or letter of credit substituted for the Letter of Credit and securing the payment of the principal of, interest on and all other amounts with respect to the Certificates, issued by a financial institution, insurance company or banking institution which has been assigned by a major nationally recognized rating agency a credit rating equal to or higher than the then-current credit rating assigned to the Letter of Credit Bank, which must (or a commitment therefor must) be delivered to the Trustee at least ten (10) days prior to the beginning of the final 35 days of the term of the Letter of Credit, provided that the Alternate Security will not, by itself, result in reduction in the rating of the Certificates.

Assignment Agreement shall mean that certain Assignment Agreement by and among the Seller the Letter of Credit Bank and the Trustee dated as of October 1, 1985, pursuant to which the Seller assigns its rights under all the Agreements to the Letter of Credit Bank and to the Trustee on behalf of the holders of the Certificates.

Authorized Newspaper shall mean a newspaper customarily published at least once a day for at least five days (other than legal holidays) in each calendar week, printed in the English language, and of general circulation in Los Angeles, California and New York, New York.

Authorized Representative of the City of Chino shall mean the City Manager or Assistant City Manager or any person or persons designated by the City Council of the City of Chino to act on behalf of the City by a written certificate signed on behalf of the City by the Mayor and containing the specimen signature of each such person.

Authorized Representative of San Bernardino County Waterworks District No. 8 shall mean any person or persons designated by the Board of Supervisors of the County of San Bernardino acting as the Board of Directors of the San Bernardino County Waterworks District No. 8 and authorized to act on behalf of said Purchaser by a written certificate signed on behalf of said Purchaser by the Chairman of the Board and containing the specimen signature of each such person.

Authorized Representative of Monte Vista shall mean the General Manager or Assistant General Manager or any person or persons designated by the Board of Directors of the Purchaser to act on behalf of the Purchaser by a written certificate signed on behalf of the Purchaser by the President and containing the specimen signature of each such person.

Authorized Representative of the City of Ontario shall mean the City Manager or Assistant City Manager or any person or persons designated by the City Council of the City of Ontario to act on behalf of the City by a written certificate signed on behalf of the City by the Mayor and containing the specimen signature of each such person.

Authorized Representative of the Seller shall mean the Chairman of the Seller or any person or persons designated by the City Council of the Seller and authorized to act on behalf of the Seller as certified by a written certificate signed on behalf of the Seller by the Chairman of the Seller and containing the specimen signature of each such person.

Authorized Representative of the City of Upland shall mean the City Manager or Assistant City Manager or any person or persons designated by the City Council of the City of Upland to act on behalf of the City by a written certificate signed on behalf of the City by the Mayor and containing the specimen signature of each such person.

Available Moneys shall mean moneys (i) that have been on deposit with the Trustee for at least 124 days, during which period no petition by or against any Purchaser or the Seller has been filed in respect of bankruptcy, insolvency or the reorganization of such person (or has been filed but dismissed); (ii) that represent any proceeds of a draw under the Letter of Credit; (iii) that represent any proceeds of the sale of the Certificates; or (iv) Net Proceeds.

Bond Counsel shall mean a nationally recognized law firm specializing in the area of tax-exempt municipal finance.

Business Day shall mean any day other than (i) a Saturday or Sunday or legal holiday or a day on which banking institutions in any of the cities in which the principal office of the Paying Agent, the Trustee or the Letter of Credit Bank is located and authorized or required by law or regulation to close, or (ii) a day on which the New York Stock Exchange is closed.

Certificate or Certificates shall mean any certificate or certificates of participation executed and delivered by the Trustee pursuant to the Trust Agreement, each such certificate representing a proportionate interest in the principal portion of the Installment Payments payable on each Installment Payment Date and in the interest portion of the Installment Payment due and payable monthly (or payable semiannually on and after the Conversion Date), to and including such maturity date at the Adjusted Interest Rate.

Certificate holder or Holder of Certificates shall mean the registered owner of any Certificate or Certificates.

Certificate Year shall mean the twelve-month period which commences on October 1 in every year and ends on September 30 of the succeeding year.

Construction Fund shall mean the Construction Fund established in Section 501 of the Trust Agreement.

Conversion Date shall mean the date upon which the Certificates begin to bear interest at the Fixed Interest Rate as provided in Section 320 of the Trust Agreement.

Cost shall mean and be deemed to include, with respect to the Project, but on a pro-rata basis with respect thereto together with any other proper item of cost not specifically mentioned in the Agreements, whether incurred prior to or after the date of the Agreements, (a) costs of payment of, or reimbursement for, acquisition, design, construction, installation and financing of the Project, including, but not limited to, administrative costs and capital expenditures relating to acquisition, construction, installation and financing payments, inspection costs, filing and recording costs, printing costs, reproduction and binding costs, fees and charges of the Trustee pursuant to this Trust Agreement, financing documents, legal fees and charges, financial, accounting and other professional consultant fees, the cost of obtaining the Letter of Credit, fees of rating agencies or costs of obtaining credit ratings, fees for the execution, transportation and safekeeping of Certificates, and charges and expenses in connection with the foregoing; (b) all other costs which the Seller shall be required to pay under the terms of any contract or contracts for the acquisition, construction and installation of the Project, including, but not limited to the cost of any insurance required under the Agreements; (c) any sums required to reimburse the Purchasers for advances made for either of the above items, or for any other costs incurred and for work done, or property conveyed, which is properly chargeable to the Project; and (d) such other expenses not specified herein as may be necessary or incidental to the acquisition, construction, rehabilitation and installation of the Project, the financing thereof and the placing of the same in use and operation, including the Remarketing Agent's fee, the Paying Agent's fee, and the first annual fee for the Letter of Credit. Cost as defined herein shall be deemed to include the cost and expenses incurred by any agent of the Seller for any of the above-mentioned items.

Earliest Optional Payment Date shall mean the first Interest Payment Date which occurs at least seven years after the Conversion Date.

Enterprise shall mean the entire water system of each Purchaser and in the case of San Bernardino Waterworks District No. 8 its sewer system, including without limitation all improvements, works or facilities owned, controlled or operated by the Purchaser to provide water service as such improvements, works or facilities now exist, together with all additions to be acquired, constructed and financed with funds derived from the sale of the Certificates, together with all improvements and extensions to said water system later constructed or organized.

Fiscal Year shall mean the twelve-month fiscal period of the Seller which commences on July 1 in every year and ends on June 30 of the following year.

Fixed Interest Rate shall mean the fixed annual interest rate on the Certificates established in accordance with Section 320 of the Trust Agreement.

Gross Revenues of the Enterprise or Gross Revenues means all revenues, and all money secured or collected from or arising out of the use or operation of the Enterprise or arising from the Enterprise, including, without limitation, all charges, rentals, and fees required to be paid for services as permitted or required by law, resolution or order, to the Purchaser for operation of the Enterprise, excepting only all customer deposits.

Installment Payment Dates shall mean the respective dates on which Installment Payments are scheduled to be made, as set forth in Exhibit C to each Agreement.

Installment Payments shall mean the aggregate of amounts set forth in the respective Agreements corresponding to the Installment Payment Dates set forth therein and designated the principal components of such Installment Payments, plus the interest components of such Installment Payments, as such amounts may be adjusted from time to time pursuant to Sections 305 of the Agreements and all other amounts payable by the Purchasers pursuant to the terms of the respective Agreements.

Interest Payment Date shall mean (a) prior to the Conversion Date, the first Wednesday of each month or the following Business Day if said Wednesday is not a Business Day, and (b) after the Conversion Date, April 1 and October 1 of each year.

Interest Payment Fund shall mean the Interest Payment Fund of the Installment Payment Account established in Section 501 of the Trust Agreement.

Interest Period shall mean (a) prior to the Conversion Date, the period from and including Wednesday of one week through Tuesday of the following week, except that the interest period commencing on the Wednesday next preceding a Record Date shall be extended through the day immediately preceding the next Interest Payment Date, and the interest rate which would have commenced on the Wednesday on or next following the Record Date will commence on the next Interest Payment Date, and (b) on or after the Conversion Date, the period from and including the Conversion Date until the succeeding April 1st or October 1st and thereafter from said April 1st or October 1st to the following March 31st or October 30th, respectively.

Investment Securities shall mean and include any of the following securities, if and to the extent the same are at the time legal for investment of Authority funds: (1) direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America) or obligations the timely payment of the principal of and interest on which are fully guaranteed by the United States of America; (2) obligations, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following: Banks for Cooperatives, Federal Intermediate Credit Banks, Federal Home Loan Bank System, Export-Import Bank of the United States, Federal Financing Bank, Federal Land Banks, Government National Mortgage Association, Farmer's Home Administration, Federal Home Loan Mortgage Corporation or Federal Housing Administration; (3) interest-bearing demand or time deposits (including certificates of deposit) in banks (including the Trustee) and savings and loan associations, having combined capital and surplus of at least Seventy Five Million Dollars (\$75,000,000); (4) repurchase agreements with financial institutions of the types described in (3), provided that the investments which are the subject of such agreements are permitted investments described in (1), (2) or (3) of this definition; and (5) the Local Agency Investment Fund.

Notwithstanding anything herein to the contrary, "Investment Securities" with respect to the investment of amounts representing draws under the Letter of Credit shall mean only direct obligations of the United States maturing not more than 30 days after the date on which they are acquired, and entry into a repurchase agreement with respect to such securities shall not be an allowable investment of such amounts.

Letter of Credit shall mean the irrevocable direct draw letter of credit issued by The Mitsubishi Bank, Ltd., Los Angeles Agency, in the stated amount of \$_____.

Letter of Credit Bank shall mean The Mitsubishi Bank, Ltd., Los Angeles Agency, the issuer of the Letter of Credit.

Maximum Annual Debt Service shall mean as of any date of calculation the sum of (a) the interest coming due on the Outstanding Certificates at an assumed rate of 10% per annum, and (b) the amount of all sinking fund installments and principal maturities, all as computed for the Certificate Year in which such sum shall be largest; provided that on the Conversion Date the amount of the Maximum Annual Debt Service shall be reduced to reflect the actual Fixed Interest Rate.

Maximum Interest Rate shall mean 12% per annum.

Moody's shall mean Moody's Investors Service, a bond rating service with offices in New York, New York.

Maintenance and Operation Costs of the Enterprise includes the reasonable expenses of management and other expenses necessary to operate, maintain and preserve each respective Enterprise in good repair and working order, excluding depreciation.

Net Proceeds shall mean any insurance or condemnation proceeds paid with respect to the Project, remaining after payment therefrom of all expenses incurred in the collection thereof.

Net Revenues of the Enterprise shall mean the amounts of Gross Revenues of the Enterprise remaining after payment therefrom the Maintenance and Operation Costs of the Enterprise.

Outstanding, when used with reference to Certificates, shall mean, as of any date, Certificates theretofore or thereupon being authenticated and delivered under the Trust Agreement except:

(i) Certificates cancelled by the Paying Agent on or prior to such date;

(ii) Certificates (or portions of Certificates) for the payment or redemption of which moneys, equal to the principal amount or Redemption Price thereof, as the case may be, with interest to the date of maturity or redemption date, shall be held in trust under

the Trust Agreement and set aside for such payment or redemption, (whether at or prior to the maturity or redemption date), provided that if such Certificates (or portions of Certificates) are to be redeemed, notice of such redemption shall have been given as in Article III provided or provision satisfactory to the Trustee shall have been made for the giving of such notice; and

(iii) Certificates in lieu of or in substitution for which other Certificates shall have been executed and delivered pursuant to Article III of the Trust Agreement.

Participants Security Agreement shall mean the Agreement dated as of October 1, 1985 by and among the Letter of Credit Bank, the Trustee and each Purchaser.

Paying Agent shall mean BankAmerica Trust Company of New York or its successor or successors or any other corporation which may at anytime be substituted in its place pursuant to the provisions of this Trust Agreement, provided that any such successor's or substitute corporation's unsecured senior debt obligations must be rated "Baa-3" or higher by a nationally recognized rating agency, if such successor or substitute corporation is not a commercial bank or trust company.

Permitted Encumbrances shall mean as of any particular time:

(i) Liens for ad valorem taxes and assessments, if any, not delinquent or which Purchasers may, pursuant to Section 415 of the Agreements, permit to remain unpaid;

(ii) The Agreements;

(iii) The Assignment Agreement;

(iv) The Trust Agreement;

(v) Participants Security Agreement; and

(vi) Easements, rights of way and other rights, reservations, covenants, conditions or restrictions which do not impair or impede construction or operation of the Project as evidenced by the certificate of an Authorized Representative of Seller filed with the Trustee and the Letter of Credit Bank.

Prime Rate shall mean the rate of interest publicly announced by the Letter of Credit Bank in Los Angeles, California from time to time as its prime rate for unsecured

commercial borrowings, said rate to change effective on and as of any change in said Prime Rate.

Principal Payment Date shall mean the date on which a principal amount of the Certificates is paid as provided in Section 303(7) of the Trust Agreement.

Principal Payment Fund shall mean the Principal Payment Fund established in Section 501 of the Trust Agreement.

Project shall mean the the Water Treatment Plant and water transmission lines and energy recovery stations to be acquired and constructed more particularly described in Exhibit "A" hereof.

Purchase Date shall mean any Business Day upon which a Certificate, after receipt by the Remarketing Agent of a Tender Notice submitted in accordance with Section 401 of the Trust Agreement is purchased from the Holder thereof on behalf of a new Holder procured by the Remarketing Agent.

Purchase Payment Price shall mean as of each Installment Payment Date, the amount set forth in Exhibit C to each Agreement, minus amounts available in the Construction Fund, Principal Payment Fund, the Interest Payment Fund, and Reserve Fund, plus an amount equal to any other amounts then due and owing under that Agreement with respect to the Project or regarding that Agreement the amount due and owing under the Reimbursement Agreement with respect to the Letter of Credit.

Purchase Price shall mean as to each Purchaser, such Purchaser's share of the Cost to acquire its capacity in the Project, as set forth in Exhibit A to its Agreement.

Record Date shall mean (a) prior to the Conversion Date the second Business Day preceding the first Wednesday of each month and (b) on or after the Conversion Date the fifteenth day of the month immediately preceding an Interest Payment Date.

Redemption Fund shall mean the Redemption Fund established in Section 501 of the Trust Agreement.

Redemption Price shall mean, with respect to any Certificate, the principal amount thereof payable upon redemption thereof pursuant to such Certificate or the Trust Agreement, and following the Conversion Date, any premium payable in connection therewith.

Reimbursement Agreement shall mean the Reimbursement Agreement relating to the Letter of Credit, dated as of October 1, 1985 between the Seller and the Letter of Credit Bank.

Remarketing Agent shall mean Merrill Lynch Capital Markets, Merrill Lynch, Pierce, Fenner & Smith Incorporated, and its successor or successors and any corporation which may be substituted in its place pursuant to that certain Remarketing Agreement dated as of October 1, 1985, by and among the Seller, the Trustee, the Remarketing Agent and the Paying Agent, provided that any such successor's or substitute corporation's debt obligations must be rated "Baa" or higher by a nationally recognized rating agency if such successor or substitute corporation is not a commercial bank or trust company and is not a bond dealer then listed.

Reserve Fund shall mean the Reserve Fund established in Section 501 of the Trust Agreement.

Reserve Requirement shall mean the amount set aside in the Reserve Fund pursuant to Section 504.1 of the Trust Agreement.

Standard & Poor's shall mean Standard & Poor's Corporation, a bond rating service with offices in New York, New York.

State shall mean the State of California.

Supplemental Trust Agreement shall mean any agreement supplemental or amendatory of the Trust Agreement.

Tender Interest shall mean, for any period of time in which there is an unreimbursed drawing under the Letter of Credit, that amount which, when added to the interest component of any Installment Payment payable to the Letter of Credit Bank during such period, will result in the Letter of Credit Bank's receiving for the first 180 days after the draw a yield equivalent to the yield of 1/2% over the average interest charged for each day on reserves traded for overnight use by member banks of the Federal Reserve System as determined by the Letter of Credit Bank, and thereafter at a yield equal the Prime Rate for a similar advance for a similar period on such unreimbursed draw under the Letter of Credit.

Tender Notice shall mean the notice required to be submitted by an owner of a Certificate for receipt by the Paying Agent on the Business Day at least seven (7) days prior to a Purchase Date as provided in Section 318 of the Trust Agreement, demanding that such Certificate be purchased.

Trust Agreement shall mean the Trust Agreement entered into by and among, the Purchasers, the Trustee, the Seller and the Paying Agent dated as of October 1, 1985 Relating to the Water Facilities Authority Water Treatment

Plant and any and all amendments and supplements thereto made in accordance with the provisions of the Trust Agreement.

Trust Estate shall mean (i) all right, title and interest of the Trustee in and to the Installment Payments and the Agreements including, without limitation: (ii) all amounts from time to time deposited in the accounts and subaccounts created pursuant to the Trust Agreement in accordance with the provisions of Article III of the Agreements, including all investments and investment earnings thereon and (iii) amounts drawn under the Letter of Credit or under any Alternate Security.

Trustee shall mean Bank of America National Trust and Savings Association, or its successor or successors or any other corporation which may at any time be substituted in its place pursuant to the provisions of the Trust Agreement.

202. Rules of Construction. Words of the masculine gender shall be deemed and construed to include correlative words of the feminine and neuter genders. Unless the context otherwise indicates, words importing the singular number shall include the plural number and vice versa, and words importing persons shall include corporations and associations, including public bodies, as well as natural persons.

The terms "hereby," "hereof," "hereto," "herein," "hereunder" and any similar terms, as used in this Agreement, refer to this Agreement.

ARTICLE III

SALE OF CAPACITY IN THE PROJECT; PURCHASE PRICE

301. Deposit of Moneys. In order to induce Purchaser to purchase the stated capacity in the Project from Seller and to assure Purchaser that the moneys needed to pay the Project Cost will be available for this purpose without delay, Seller, immediately following recordation of this Agreement and the other Agreements with other Purchasers by Seller, shall deposit with the Trustee or cause to be deposited with the Trustee, the sum of \$_____. Of this amount, \$_____ is required to be deposited in the Construction Fund held by the Trustee pursuant to the Trust Agreement; \$_____ is required to be deposited in the Reserve Fund, of which \$_____ will be held in the Ontario Reserve Account held by the Trustee pursuant to the Trust Agreement for Purchaser; and \$_____ is required to be deposited in the Ontario Interest Payment Account held by the Trustee pursuant to the Trust Agreement for Purchaser.

302. Construction of Project. Seller agrees to acquire and construct or cause the acquisition and construction of the Project pursuant to the plans and specifications on file in the office of the Seller. Seller shall cause contractors under any construction contracts to comply with workers' compensation insurance laws and to pay prevailing wages in accordance with the requirements of Article 2 (commencing with Section 1770) of Chapter 1, Part 7, Division 2 of the California Labor Code. Seller shall provide for supervision of construction of the Project until completion of construction of the Project. Seller shall cause the construction to be performed diligently to the end and covenants that the Project will be substantially completed by October 8, 1988. Purchaser and Seller agree that upon substantial completion of the Project, Seller will maintain and operate the Project under the terms and provisions of this Agreement and such other agreements to be made between the Seller and the Purchasers. No changes shall be made in such plans and specifications which increase the pro rata portion of Project Cost attributable to the Purchaser's capacity in the Project in excess of the funds available in the Construction Fund unless the Purchaser deposits or causes to be deposited in the Construction Fund monies in an amount deemed by the Seller and Purchaser to be sufficient to pay such increase.

Upon completion of construction of the Project, Seller shall deliver or cause to be delivered to the Trustee an Acceptance Certificate thereof executed by an Authorized Officer of the Seller.

Prior to the date of the filing of the Acceptance Certificate or prior to October 8, 1988, whichever is earlier, the Seller shall notify Purchaser of its pro rata share of excess funds then on deposit in the Construction Fund. All such excess funds shall be transferred to the Redemption Fund for the redemption of Certificates in the principal amount of \$100,000 or integral multiples thereof unless the Purchaser instructs the Seller to have its pro rata share transferred to the Purchasers Installment Payment Account as a credit against the principal portion of its Installment Payment on the next occurring Installment Payment Date. Seller (prior to the filing of the Acceptance Certificate or October 1, 1988), whichever is earlier.

303. Payment of Project Cost. Payment for the construction of the Project, as well as all other Project Cost, up to the total amount in the Construction Fund, shall be made from the monies held by the Trustee in the Construction Fund. The Purchaser may at any time during construction contribute cash or its equivalent (as agreed upon between Seller and the

Purchaser, with the consent of the Letter of Credit Bank) to the Project which amount will be credited against the Purchase Price to be paid by the Purchaser. As an alternative, if Seller, Purchaser and the Letter of Credit Bank agree, Purchaser may be reimbursed from the Construction Fund any Project Cost heretofore or hereafter advanced by Purchaser.

304. Sale of Capacity in the Project; Term.

(a) Sale of Capacity in the Project. In consideration of the payment, or the causing of the payment, of Installment Payments provided for in Section 305 of the Trust Agreement by Purchaser to Seller or its assignee, Seller hereby grants, conveys, bargains and sells to Purchaser, effective upon the date of the Trust Agreement, the capacity in the Project described in Exhibit A, upon the terms and conditions set forth in this Agreement and Purchaser hereby accepts said grant, conveyance, bargain and sale upon said terms and conditions.

(b) Term of Agreement. The term of this Agreement shall commence upon the date of the Trust Agreement and shall terminate upon the occurrence of either of the following events: (a) payment in full of the Installment Payments by Purchaser pursuant to the provisions of this Agreement; or (b) a default by Purchaser and termination pursuant to Article VI of the Trust Agreement.

305. Installment Payments. For the purchase of the stated capacity in the Project, Purchaser shall pay to Seller, its successors and assigns, the Installment Payments set forth in Exhibit B attached hereto and by this reference incorporated herein from, but only from, the Gross Revenues of the Purchaser's Enterprise. Installment Payments shall be made to the Seller, which Installment Payments shall be held by Seller in segregated principal and interest payment accounts to be established by Seller in the name of each Purchaser until paid to the Letter of Credit Bank as provided in the Reimbursement Agreement on each Interest Payment Date and/or Principal Payment Date, as the case may be. Installment Payments received by the Seller shall be invested in Investment Securities and any earnings thereon shall be credited pro rata to each Purchaser's Principal Payment Account.

Each Installment Payment shall constitute payment in part for the title to the stated capacity in the Project as described in Exhibit A. For each Certificate Year commencing with the date of the Trust Agreement, Purchaser shall make Installment Payments on Installment Payment Dates during said Certificate Years as more particularly set forth in Exhibit B. The Purchaser shall pay from the proceeds of the sale of the

Certificates advance Installment Payments in the aggregate amount of \$ _____, consisting of interest only for the period from the date of the delivery of the Certificates through and including January 1, 1986, on the Purchaser's portion of the principal amount of the Certificates calculated at an assumed interest rate of 10% per annum.

Installment Payments for each Installment Payment Date during the term of this Agreement shall constitute the total amount due for said payment period, and shall be paid by Purchaser for and in consideration of the Seller selling to the Purchaser the right to receive the capacity in the Project.

In determining the amount of each Installment Payment, the Seller shall give the Purchasers a credit against the amount due from and payable by the Purchaser specified in said Exhibit B by (i) an amount equal to the amounts on deposit in the Purchaser's Principal and Interest Payment Accounts held by Seller and similar accounts established pursuant to the Trust Agreement and held by the Trustee; (ii) the investment earnings received by the Trustee from the investment of money in the Purchaser's Reserve Account as reported to Purchaser pursuant to Section 508 of the Trust Agreement; and (iii) the amount in the Reserve Account equal to the amount paid to the Letter of Credit Bank for the last Installment Payments remaining prior to the expiration of the term of this Agreement and paid by the Letter of Credit Bank, as provided in Section 504 of the Trust Agreement.

(a) Prior to the Conversion Date, the interest portion of each Installment Payment shall be calculated and paid at a rate per annum of 8% per annum, unless the Adjusted Interest Rate of the Certificates is then greater than 8% in which event the interest rate on each Installment Payment shall be at a rate per annum equal to the Adjusted Interest Rate (which shall be determined as provided in Section 317 of the Trust Agreement). In no event shall the interest portion of Installment Payments be paid at less than 8% per annum.

(b) Purchaser agrees to deposit such amounts necessary to pay the interest and principal due on the Certificates on the next Interest Payment Date and Principal Payment Date.

(c) Prior to the Conversion Date the interest portion of each Installment Payment shall be adjusted upward or downward as provided in Exhibit B of the Trust Agreement. On the 25th day of each month the Trustee shall notify the Seller by telephone of the actual interest portion of the Installment Payments due on the next Installment Payment Date.

(d) At its election, the Seller may convert the interest rate component of the Installment Payments applicable to the Certificates from the Adjustable Interest Rate to the Fixed Interest Rate as provided for in Section 320 of the Trust Agreement.

(e) As additional consideration for the purchaser of Purchasers Capacity, the Purchaser agrees to pay Tender Interest applicable to the Purchaser on each Installment Payment Date in the event of an unreimbursed draw under the Letter of Credit in addition to the Installment Payments required hereinabove.

(f) In addition to the Installment Payments, the Purchaser agrees to pay 38.29976% (which percentage will change following completion of construction evidenced by a certificate of the Authority delivered to the Purchasers, the Trustee and the Letter of Credit Bank) of: (i) all fees and expenses of the Trustee incurred in connection with the performance of its duties under the Trust Agreement and (ii) all unremimbursed draws under the Letter of Credit and the fees of the Letter of Credit Bank.

306. Interest Component. Except for the Installment Payment due through and including January 1, 1986, which are to be comprised of interest only, a portion of each Installment Payment shall be paid as, and represents, the payment of a portion of the unpaid Purchase Price and interest on the unpaid Purchase Price. The interest component of each Installment Payment is set forth in Exhibit B.

307. Payment in Lawful Money; No Set-Off. Each Installment Payment shall be paid or caused to be paid by the Purchaser in lawful money of the United States of America, which at the time of payment is legal tender for the payment of public and private debts, to the Seller or its assignee at the Office of the Seller in Montclair, California, or such other place as Seller or its assignee shall designate. Any such Installment Payments accruing hereunder which shall not be paid on or prior to each Installment Payment Date shall bear interest at the rate of twelve percent (12%) per annum from the Installment Payment Date until the same shall be paid. Notwithstanding any dispute between Purchaser and Seller, Purchaser shall make or cause to be made each and all Installment Payments when due, whether or not Seller shall deliver to Purchasers any capacity in the Project and shall not withhold any Installment Payments pending the final resolution of such dispute nor shall Purchaser assert any right of set-off or counter-claim against its obligation to make Installment Payments as set forth herein.

308. Pledge of Revenues. Except for the payment of the Purchaser's 1976 Water Revenue Bonds which constitute a first lien on said Gross Revenues, the Installment Payments shall be equally secured by a pledge, charge and lien upon the Gross Revenues of the Enterprise, and all of the Gross Revenues of the Enterprise are hereby pledged, charged and assigned for the security of said Installment Payments and any obligations of the City on a parity with the Installment Payments, and such Gross Revenues and any interest earned on the Gross Revenues shall constitute a trust fund for the security and payment of the interest on and principal of said Installment Payments and so long as any of the Installment Payments thereon are unpaid said Gross Revenues and interest thereon shall not be used for any other purpose, and except as permitted by this Agreement, and shall be held in trust for the benefit of the Seller and shall be applied pursuant to this Agreement, or to this Agreement as modified pursuant to provisions herein. The Gross Revenues of the respective Enterprises of the other Purchasers are not pledged hereunder.

309. Title. From and after the date of the Trust Agreement, title to the Purchaser's stated capacity in the Project, and each and every portion thereof, shall vest in Purchaser, provided, however, that title to the Purchaser's stated capacity in the Project and each and every portion thereof shall be subject to the subsequent payment of Installment Payments as described in Section 305 of the Trust Agreement and to the remedies of Seller and its assignee in the event of default as provided in Article VI of the Trust Agreement and to Permitted Encumbrances.

310. Disclaimer of Warranties. THE SELLER MAKES NO WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AS TO THE VALUE, DESIGN, CONDITION, MERCHANTABILITY OR FITNESS FOR PARTICULAR PURPOSE OR FITNESS FOR USE OF THE PROJECT, OR WARRANTY WITH RESPECT THERETO. In no event shall Seller be liable for any incidental, indirect, special or consequential damage in connection with or arising out of this Agreement or the existence, furnishing, functioning or Purchaser's use of any item, product or service provided for in this Agreement.

311. Manufacturers' Warranties. The Seller appoints Purchaser its agent and attorney-in-fact during the Agreement Term, so long as Purchaser shall not be in default hereunder, to assert from time to time whatever claims and rights, including warranties concerning the Project, which Seller may have against the manufacturer or supplier of such portion of the Project. As between the Seller and the Purchaser, Purchaser's sole remedy for the breach of such warranty, indemnification or representation shall be against the manufacturer of or supplier for the Project, and not against

the Seller, nor shall such matter have any effect whatsoever on the rights of the Seller with respect to this Agreement, including the right to receive full and timely payments hereunder. Purchaser expressly acknowledges that neither Seller nor the Trustee makes, or has made, any representation or warranty whatsoever as to the existence or availability of such warranties of the manufacturer of or supplier for any part of the Project.

312. Purchaser's Option to Prepay the Installment Payments. Except as provided herein, Purchaser shall not have the option to prepay all remaining Installment Payments.

(a) The Purchaser, at its option, may prepay the principal component of Installment Payments, in whole or in part, on any Installment Payment Date prior to the Conversion Date, in any integral multiple of \$100,000, at the principal amount thereof, together with accrued interest to the date on which Certificates will be redeemed with such payment.

(b) The Purchaser may also, at its option, prepay the principal component of Installment Payments, in whole or in part, on the first Interest Payment Date which occurs at least seven years after the Conversion Date and on any Interest Payment Date thereafter, with a redemption premium of three percent (3%) of the principal amount of Certificates redeemed on such date, such premium to be reduced by one percent (1%) on each anniversary of the initial redemption date until it reaches zero together with accrued interest to the date on which Certificates will be redeemed with such payment.

The principal and interest on any Certificates to be redeemed due to option prepayments shall be paid by the Letter of Credit Bank from draws on the Letter of Credit. The premium to be paid on any Certificates called for redemption shall be deposited by the Purchaser with the Trustee at least 124 days prior to the date set for redemption of related Certificates.

313. Arbitrage Covenant. The Purchaser and the Seller hereby covenant with the Certificateholders that, notwithstanding any other provision of this Agreement, they will make no use of the proceeds of the Certificates which, if such use were made on the date of delivery of the Certificates to the Certificateholders, would have caused the obligations of the Purchaser under this Agreement to be "arbitrage bonds" subject to federal income taxation by reason of Section 103(c) of the Internal Revenue Code of 1954, as amended.

ARTICLE IV

COVENANTS RELATING TO THE PROJECT

401. Maintenance and Operation of the Project. Seller shall maintain the Project or cause the Project to be maintained and operated on behalf of Purchaser and the other Purchasers of capacity in the Project. Notwithstanding the covenants hereunder made by Seller, it is understood that the Purchasers shall pay their proportionate shares of the cost of the maintenance and operation of the Project. The obligations of the Purchasers may be more fully set forth in further agreements among the Purchasers and Seller.

402. Utilities. Seller shall pay for, or otherwise arrange for the payment of, all utility services supplied to the Project (which services shall include power, gas, telephone and all other utility services), all cost of operation of the Project and all cost of repair and replacement of the Project resulting from ordinary wear and tear or want of care.

403. Public Liability Insurance. On or before the award of any construction contract Seller shall maintain or cause to be maintained public liability insurance against claims for bodily injury or death, or damage to property occurring upon, in or about the Project, such insurance to afford protection to a limit of not less than \$5,000,000 combined single limit bodily injury and property damage. Such insurance may be maintained in conjunction with or separate from any other similar insurance carried by Purchaser.

404. Workers' Compensation Insurance. On or before the award of any construction contract Seller shall be responsible for the compliance, including all financial payments, with the State of California laws as regards Workers' Compensation and employee safety.

405. Fire and Special Extended Coverage Endorsement. Seller shall maintain or cause to be maintained, throughout the term of this Agreement, fire and lightning insurance, earthquake insurance, subject to deductible conditions not to exceed 10% of the full insurable value of the above ground structures, and special extended coverage endorsement which includes vandalism and malicious mischief endorsement, on all above-ground structures constituting any part of the Project in an amount equal to at least one hundred percent (100%) of the replacement cost of such structures (less a deductible amount of not more than \$5,000). All insurance required to be maintained pursuant to this Section may be subject to deductible clauses as may be approved by the Purchaser, provided deductible amounts for fire extended coverage shall

not exceed \$5,000 for any one loss. Each such policy of insurance shall contain an inflation cost endorsement, a standard replacement cost endorsement providing for no deduction for depreciation, and a stipulated amount endorsement. Such insurance may be maintained in conjunction with or separate from any other similar insurance carried by Purchaser.

In addition, the Seller shall maintain or cause to be maintained use and occupancy or business interruption or rental income insurance against the perils of fire, lightning, earthquake, vandalism and malicious mischief and such other perils ordinarily defined as "extended coverage" on the above-ground structures of the Project in an amount equal to not less than 18 months' aggregate Installment Payments due from Purchasers under all the Agreements.

Any insurance required by Sections 403, 404 and 405 hereof carried by the Seller shall name the Purchasers as additional named coinsured or if carried by the Purchasers shall name the Seller as additional coinsured. Seller, or Purchasers if the required insurance is carried by the Purchasers, may be self-insured up to \$500,000 for any single event.

406. Form of Insurance Policies; Delivery.

(a) All policies of insurance required by Section 405 of this Agreement shall provide (or Seller shall separately agree) that all proceeds thereunder relating to that portion of the Project damaged or destroyed shall be payable to the Trustee pursuant to a lender's loss payable endorsement, substantially in accordance with the form approved by the California Bankers Association. The Trustee may adjust, collect and receive all monies relating to the Project which may become due and payable under any such policies, may compromise any and all claims thereunder and shall apply the Net Proceeds of such insurance as provided in this Agreement. All policies of insurance required by Section 405 of this Agreement shall be to the Letter of Credit Bank and shall provide that Seller or its assignee and Purchaser, shall be given thirty (30) days' notice of any intended cancellation thereof or reduction of the coverage provided thereby.

(b) Seller shall deliver, or cause to be delivered, to Purchaser the Letter of Credit Bank and the Trustee in the month of December in each year a schedule, in such detail as Purchaser or the Trustee may request, setting forth the insurance policies then in force pursuant to this Agreement, the names of the insurers which have issued the policies, the amounts thereof, the property and risks covered thereby and evidence of the payment of premiums due

thereunder. If so requested in writing by Purchaser or the Trustee or the Letter of Credit Bank, Seller shall also deliver, or cause to be delivered to Purchaser or the Trustee or the Letter of Credit Bank duplicate originals or certified copies of each insurance policy described in such schedule, provided, however, that delivery of the insurance policies under the provisions of this Section shall confer no responsibility upon Purchaser or the Trustee or the Letter of Credit Bank as to the sufficiency of coverage or amounts of said policies. In the event of failure of Seller to obtain or cause to be obtained the insurance required by Sections 403 through 405 of the Trust Agreement, Purchaser may obtain such insurance on behalf of Seller and may collect premiums thereof from Seller with interest at the rate of twelve percent (12%) on unpaid premiums.

407. Inability to Obtain Insurance. Notwithstanding the provisions of Sections 403 through 405, if at any time Seller shall be unable to obtain or maintain insurance to the extent required by such Sections on reasonable terms, as to amounts, costs or as to risks, the failure to maintain such insurance shall not constitute a default under this Agreement if Purchaser shall cause the employment of an independent insurance consultant having a favorable reputation for skill and experience in such matters, for the purpose of reviewing such insurance requirements and making recommendations respecting the types, amounts and provisions of reasonably obtainable insurance, including self-insurance, or the establishment of other generally accepted forms of alternative protection that should be carried in lieu thereof, or the infeasibility of obtaining insurance, and if Seller shall comply with the recommendations made in such report. A signed copy of the report of the insurance consultant shall be filed with the Trustee and the Letter of Credit Bank, and the insurance requirements specified in Sections 403 through 405 shall be deemed to be modified to conform with the recommendations in such report.

408. Application of Net Proceeds of Insurance. The Net Proceeds of any insurance required by this Agreement relating to the loss or destruction of any part of the Project which is received by the Seller shall be deposited in the Construction Fund and Seller shall assure that such Net Proceeds are and shall be applied and disbursed as set forth below:

(a) If Seller determines that such Net Proceeds are sufficient to repair, reconstruct or replace the damaged or destroyed portion of the Project, which determination shall be evidenced by a certificate executed by an Authorized Officer of Seller and filed with the Trustee as assignee of Seller, then Seller shall cause such portion of the Project to be repaired,

reconstructed or replaced to at least the same good order, repair and condition as it was in prior to the damage or destruction, insofar as the same may be accomplished by the use of said Net Proceeds, and Seller shall disburse said Net Proceeds for said purpose. Any balance of said Net Proceeds not required for such repair, reconstruction or replacement shall be transferred by the Trustee to the Redemption Fund to be applied as prepayment of Installment Payments and shall be used to redeem Certificates as provided in Section 606 of the Trust Agreement.

(b) In the event that such Net Proceeds are not sufficient to repair, reconstruct or replace the damaged or destroyed portion of the Project, as evidenced by a certificate executed by an Authorized Representative of Seller and filed with the Trustee, Seller shall deposit such Net Proceeds with the Trustee and direct the Trustee to apply such Net Proceeds to the prepayment in full, on the next succeeding Installment Payment Date, of Installment Payments, by paying the then-stipulated fair market value of the stated capacity in the Project as set forth in Exhibit B of this Agreement, or if such Net Proceeds are insufficient to prepay Installment Payments in full, then Seller shall direct the Trustee to apply such Net Proceeds to prepayment of a portion of the Installment Payments, except that no such prepayment shall be in an amount less than \$5,000.

Unless the Purchaser's Installment Payments have been paid in full as provided in subsection (b) of this Section 408, Purchaser shall be obligated to continue to make Installment Payments required by this Agreement notwithstanding damage to or destruction of all or a portion of the Project.

409. Application of Net Proceeds of Condemnation. All Net Proceeds received in any condemnation proceeding undertaken by any governmental agency relating to all or a portion of the Project shall be paid by Purchasers, if received by Purchasers, to the Trustee for deposit in the Principal Payment Fund and deposited in the appropriate Principal Payment Accounts and Seller shall assure that such Net Proceeds are applied and disbursed as set forth below:

(a) If Seller determines that such condemnation has not materially adversely affected the operation of the Project as set forth in a certificate executed by an Authorized Representative of Seller and filed with the Trustee, as assignee of Seller, and if such Net Proceeds are insufficient to enable Seller to prepay Installment Payments in full by paying the stipulated value of the Project as set forth in Exhibit B of the Agreements on the next succeeding Installment Payment Date, Seller shall direct the Trustee to retain such

Net Proceeds in the Principal Payment Fund and to cause such Net Proceeds to be applied as a credit against the appropriate Purchaser's next succeeding Installment Payments.

(b) If Seller determines that such condemnation has materially adversely affected the operation of the Project as set forth in a certificate executed by an Authorized Representative of Seller and filed with the Trustee, as assignee of Seller, or if such Net Proceeds are sufficient to enable Purchasers to prepay the Installment Payments in full by paying the stipulated value of the Project on the next succeeding Installment Payment Date, Seller shall direct the Trustee to deposit the Net Proceeds in the Redemption Fund and to apply such Net Proceeds to the prepayment in full or (to the extent that such condemnation pertains only to a portion of the Project) in part on the next succeeding Installment Payment Date of Installment Payments.

Unless Installment Payments shall have been paid in full as provided in subsection (b) of this Section 409, Purchaser shall be obligated to continue to make Installment Payments required by this Agreement, notwithstanding condemnation of all or a portion of the Project.

410. Payment of Installment Payments. Purchaser shall duly and punctually pay or cause to be paid the Installment Payments and the other amounts due hereunder at the dates and places and in the manner provided in this Agreement according to the true intent and meaning hereof and of the Trust Agreement and shall not directly or indirectly extend or assent to the extension of the Installment Payment Dates for any Installment Payments.

411. Compliance with this Agreement. Seller and Purchaser will faithfully observe and perform or cause to be faithfully observed and performed all the covenants, conditions and requirements of this Agreement, and will not suffer or permit any default to occur hereunder, nor do or permit to be done in, upon or about the Project or any part thereof, anything that might in any way weaken, diminish or impair the operation thereof. Neither Seller nor Purchaser will do or permit anything to be done, or omit or refrain from doing anything, in any case where any such act done or permitted to be done, or any such omission of or refraining from action, would or might be a ground for cancellation or termination of this Agreement (other than by prepayment).

412. Payment of Taxes. Purchaser will pay or cause to be paid all taxes, assessments and other governmental charges, if any, that may be levied, assessed or charged upon the Purchasers' capacity in the Project promptly as and when the

same shall become due and payable; provided, however, that Purchaser shall not be required to pay any such tax, assessment, or charge, if the validity thereof shall concurrently be contested in good faith by appropriate proceedings, if Purchaser shall set aside, or cause to be set aside, reserves agreed by Purchaser and Seller or its assignee to be in a form and amount which is adequate with respect thereto and if Purchaser shall hold Seller and its assignee harmless as to any loss or forfeiture which might arise from the nonpayment of any such item; and provided further, that Purchaser, upon the commencement of any proceedings to foreclose the lien of any such tax, assessment, or charge, will forthwith pay, or cause to be paid, any such tax, assessment or charge, unless contested in good faith as aforesaid. Purchaser will not suffer the Purchaser's capacity in the Project or any part thereof, to be sold for any taxes, assessments or other charges whatsoever, or to be forfeited therefor. Nothing herein contained shall be deemed to impose any liability to pay taxes, assessments or charges where none is imposed by law.

413. Observance of Laws and Regulations. Seller and Purchaser will well and truly keep, observe and perform or cause to be kept, observed and performed all valid and lawful obligations or regulations now or hereafter imposed on either of them by contract, or prescribed by any law of the United States, or of the State of California, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of any and every right, privilege or franchise now owned or hereafter acquired by Purchaser and enjoyed by Seller, including Seller's and Purchaser's right to exist and carry on business as a public body, corporate and political, to the end that such rights, privileges and franchises shall be maintained and preserved, and shall not become abandoned, forfeited or in any manner impaired.

414. Maintain and Preserve the Project. Seller will operate, maintain and preserve, or will cause to be operated, maintained and preserved, the Project in good repair and working order and will operate or cause to be operated the Project, in an efficient and economical manner.

415. Other Liens. Seller and Purchaser shall keep, or cause to be kept, the Project and all parts thereof free from judgments, from mechanics and materialmen's liens (except those arising from construction of the Project) and free from all liens, claims, demands and encumbrances of whatsoever nature or character, other than Permitted Encumbrances, and Seller and Purchaser shall keep or cause to be kept the Project free from any claim or liability which might impair or impede the operations of the Project; provided, however, that Seller or Purchaser shall not be required to pay any such liens, claims

or demands if the validity thereof shall concurrently be contested in good faith by appropriate proceedings, and if Seller or Purchaser shall set aside, or cause to be set aside, reserves deemed by it to be adequate with respect thereto and provided further, that Seller or Purchaser upon the commencement of any proceedings to foreclose the lien of any such charge or claim, will forthwith pay, or cause to be paid, any such charge or claim unless contested in good faith as aforesaid. Seller, Purchaser or the Trustee, may, (after first giving the other parties ten (10) days' written notice to comply therewith and failure of party liable to so comply within said ten-day period) defend against any and all actions or proceedings in which the validity of this Agreement is or might be questioned, or may pay or compromise any claim or demand asserted in any such actions or proceedings; provided, however, that, in defending against such actions or proceedings or in paying or compromising such claims or demands, Seller shall not in any event be deemed to have waived or released Purchaser from liability for or on account of any of its covenants and warranties contained herein, or from its liability hereunder to defend the validity of this Agreement and the pledge herein made and to perform such covenants and warranties.

416. Against Encumbrances or Sales. Except for the encumbrance created by Purchasers Resolution No. ___ providing for the issuance of its 1976 Water Revenue Bonds neither Seller nor Purchaser shall create or suffer to be created any mortgage, pledge, lien, charge or encumbrance upon the Project, or upon any real or personal property essential to the operation of the Project except Permitted Encumbrances. Except as expressly provided in this Article IV, Purchaser shall promptly, at its own expense, take such action as may be necessary to discharge or remove any such mortgage, pledge, lien, charge or encumbrance for which it is responsible, if the same shall arise at any time. Neither Seller nor Purchaser shall sell or otherwise dispose of any property essential to the proper operation of the Project, except as otherwise permitted by this Agreement.

417. Prosecution and Defense of Suits. Purchaser shall, promptly upon request of Seller or its assignee, from time to time take such action, or cause such action to be taken, as may be necessary or proper to remedy or cure any defect in or cloud upon its interest in the Project whether now existing or hereafter developing and shall prosecute, or cause to be prosecuted, all such suits, actions and other proceedings as may be appropriate for such purpose and shall indemnify and save Seller and its assignee harmless from all loss, cost, damage and expense, including attorneys' fees, which they or any of them may incur by reason of any such defect, cloud, suit, action or proceedings.

418. Recordation and Filing. Purchaser shall record and file, or shall cause to be recorded and filed, this Agreement and all such documents as may be required by law (together with whatever else may be necessary or be reasonably required by Seller or its assignee), in such manner, at such times and in such places as may be required by law in order fully to preserve and protect the rights of Seller and its assignee under this Agreement.

419. Waiver of Laws. Purchaser shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, or suffer, any stay or extension law now or at any time hereafter in force which may adversely affect the covenants and agreements contained in this Agreement and the benefit and advantage of any such law is hereby expressly waived by Seller to the extent that Seller may legally make such waiver.

420. Compliance with Conditions Precedent. Upon the date of delivery of this Agreement, all conditions, acts and things required by law or by this Agreement to have happened or to have been performed precedent to or in the execution of this Agreement shall exist, have happened and have been performed, and this Agreement shall be within every limit prescribed by law.

421. Power to Enter Into Agreements.

(a) Purchaser is duly authorized to enter into this Agreement and the Trust Agreement. The provisions of this Agreement are and will be the valid and legally enforceable obligations of Purchaser in accordance with their terms and the terms of this Agreement.

(b) Seller is duly authorized to enter into this Agreement, the Assignment Agreement and the Trust Agreement and to enter into the transactions contemplated by this Agreement, the Assignment Agreement and the Trust Agreement. Seller has duly authorized the execution and delivery of this Agreement, the Assignment Agreement and the Trust Agreement.

422. Further Assurances. Whenever and so often as requested so to do by Seller or its assignee, Purchaser will promptly execute and deliver or cause to be executed and delivered all such other and further instruments, documents or assurances, and promptly do or cause to be done all such other and further things, as may be necessary or reasonably required in order further and more fully to vest in Seller or its assignee all rights, interest, powers, benefits, privileges and advantages conferred or intended to be conferred upon Seller and its assignee by this Agreement.

423. Seller Not Liable. Neither Seller nor its assignee nor its members, officers, agents or employees shall be liable to the Purchasers or to any other person whomsoever for any death, injury or damage that may result to any person or property by or from any cause whatsoever in, on or about the Project. The Purchasers shall indemnify, or cause indemnification of, and hold Seller, its assignee, its and their members, officer, agents and employees harmless from, and defend each of them against, any and all claims, liens and judgments for death of or injury to any person or damage to property whatsoever occurring in, on or about the Project.

424. Indemnification Due to Trustee. Purchaser shall pay, or cause to be paid, to Seller or the Trustee as assignee of Seller, fees, compensation and expenses due under the Trust Agreement upon periodic billing therefor by Seller or the Trustee as assignee of Seller. In addition, Purchaser shall and hereby agrees to indemnify, or cause indemnification of, and hold, or cause to be held, Seller and the Trustee as assignee of Seller harmless from and against all claims, losses and damages, including legal fees and expenses, arising out of (i) the use, maintenance, condition or management of, or from any work or thing done on, the Project by Purchaser, (ii) any breach or default on the part of Purchaser in the performance of any of its obligations under this Agreement, (iii) any act of negligence of Purchaser, or of any of its agents, contractors, servants, employees or licensees with respect to the Project, (iv) the authorization of payment of the Cost of the Project by Purchaser, or (v) the defense (pursuant to Section 417 of the Installment Agreement or Section 611 of the Trust Agreement) against actions or proceedings in which the validity of this Agreement is or might be questioned and the payment or compromise of claims or demands asserted in any such actions or proceedings, all to the extent permitted by law. Indemnification for any tort mentioned in this Section shall be limited to the extent and in the amounts provided for by California law. No indemnification will be made under this Section or elsewhere in this Agreement for wilful misconduct, gross negligence or negligence by the Trustee, its officers, agents, employees, successors or assigns.

425. Authority to Operate the Project. The Seller shall assure that the Property including the Project is operated pursuant to complete and lawful authority. No permits, rights, franchises or privileges relating thereto shall be allowed to lapse or be forfeited so long as the same shall be necessary for the ownership or operation of the Project. Seller shall procure, or cause to be procured, the extension or renewal of each and every permit, right, franchise or privilege so expiring and necessary or desirable for the ownership or operation of the Project as such.

426. Operation and Equipping of the Project. The Seller shall continuously furnish and equip the Project, or cause the Project to be furnished and equipped, so that the Project shall at all times constitute complete and operational water treatment and distribution facilities which are conducted, operated and maintained in an efficient and economical manner. All costs of operating and maintaining the Project shall be borne by the Purchasers pro rata or as may otherwise be set forth in further agreements between the Seller and the Purchasers.

427. Furnishing Additional Information. Purchaser shall, from time to time, furnish or cause to be furnished to Seller or its assignees such data regarding the Project as shall be reasonably requested in order to enable Seller and the Trustee as assignee of Seller to determine whether there has been compliance with the covenants, terms and provisions of this Agreement and of the Trust Agreement.

428. Quiet Enjoyment. The parties hereto mutually covenant that Purchaser, so long as it shall keep and perform the covenants and agreements herein contained, shall at all times during the term of this Agreement peaceably and quietly, have, hold and enjoy its interest in the Project without suit, trouble or hindrance from Seller.

429. Restriction Against Pledge. Seller shall not pledge Installment Payments or other amounts derived from the Project or from rights of Seller under this Agreement nor shall Seller encumber or place any lien upon the Project, except as otherwise provided in this Agreement, the Reimbursement Agreement, Participants Security Agreements and the Trust Agreement.

430. Assignment by Seller. Except pursuant to the Assignment Agreement and except as otherwise set forth herein, Seller shall not assign this Agreement, its rights to receive Installment Payments or its duties and obligations hereunder.

431. No Violation of Other Agreements.

(a) Purchaser hereby represents that neither the execution and delivery of this Agreement and the Trust Agreement, nor the fulfillment of and compliance with the terms and conditions of the Trust Agreement and hereof, nor the consummation of the transactions contemplated hereby or thereby, conflicts with or results in a breach of terms or violation of any other agreement to which Purchaser is a party or by which Purchaser is bound, or constitutes a default under any of the foregoing.

(b) Seller hereby represents that neither the execution and delivery of this Agreement, the Assignment Agreement, the Trust Agreement or the Reimbursement Agreement, nor the fulfillment of and compliance with the terms and conditions of the Trust Agreement and thereof, nor the consummation of the transactions contemplated hereby or thereby, conflicts with or results in a breach of terms or violation of any other agreement to which Seller is a party or by which Seller is bound, or constitutes a default under any of the foregoing or is in violation of any law, regulation or ruling of the State of California.

ARTICLE V

WATER REVENUES, COVENANTS

501. Water Revenue Fund. The Purchaser has established a Water Revenue Fund in connection with Purchasers 1976 Water Revenue Bond issue which is held by the appropriate financial officer of the Purchaser. All Gross Revenues of the Enterprise shall be deposited with the Treasurer and credited to the Water Revenue Fund. After the payment of or the provision for the payment of the principal and interest on Purchasers 1976 Water Revenue Bond issue, the Treasurer shall transfer moneys from the Water Revenue Fund to pay the Installment Payments in accordance with Section 305. Any moneys in excess of that budgeted as required for the payment of the Installment Payments and any obligations on a parity with the Installment Payments and the Maintenance and Operation Cost of the Enterprise shall constitute surplus revenues in the Water Revenue Fund. After all covenants contained herein have been duly performed, and provided that there are no amounts then owing to the Letter of Credit Bank, these surplus revenues may be used for: (1) extensions and betterments of the Enterprise; or (2) any lawful purpose of the Purchaser.

502. Covenants. So long as the Installment Payments are unpaid, the Purchaser makes the following covenants with the Seller and its assigns, which covenants are necessary, convenient and desirable to secure the payment of the Installment Payments; provided, however, that said covenants do not require the Purchaser to expend any funds other than the revenues received or receivable from the Enterprise.

Covenant 1. Discharge Claims. The Purchaser covenants that in order fully to preserve and protect the priority and security of the Installment Payments, the Purchaser shall pay from the Water Revenue Fund and discharge all lawful claims for labor, materials and supplies furnished for or in connection with the Enterprise which, if unpaid, may become a lien or

charge upon Gross Revenues of the Enterprise prior or superior to the lien of the Installment Payments and impair the security of the Installment Payments. The Purchaser shall also pay from the Water Revenue Fund all taxes and assessments or other governmental charges lawfully levied or assessed upon or in respect of the Enterprise or upon any part thereof or upon any of the Gross Revenues therefrom.

Covenant 2. Operate Works in Efficient and Economical Manner. The Purchaser covenants and agrees to operate the Enterprise in an efficient and economical manner and to operate, maintain and preserve the Enterprise in good repair and working order.

Covenant 3. Against Sale, Eminent Domain. The Purchaser covenants that the Enterprise shall not be mortgaged or otherwise encumbered, sold, leased, pledged, any charge placed thereon, or disposed of as a whole or substantially as a whole unless such sale or other disposition be so arranged as to provide for a continuance of payments into the Water Revenue Fund sufficient in amount to permit payment therefrom of the Installment Payments, payment of which is required to be made out of the Gross Revenues of the Enterprise. Provided that there is such continuance of payments into the Water Revenue Fund, the sale of a portion of the Enterprise to another Purchaser shall be permitted. The Gross Revenues of the Enterprise shall not be mortgaged, encumbered, sold, leased, pledged, any charge placed thereon, or disposed of or used except as authorized by the terms of this Agreement. The Purchaser further covenants that it will not enter any agreement which impairs the operation of the Enterprise or any part of it necessary to secure adequate revenues to pay the Installment Payments or which otherwise would impair the rights of the Purchaser with respect to the revenues or the operation of the Enterprise. If any substantial part of the Enterprise is sold, the payment therefor shall either be used for the acquisition and/or construction of improvements and extensions of the Enterprise or shall be placed in the appropriate funds and shall be used to pay the Installment Payments in the manner provided in this Agreement.

The Purchaser covenants that any amounts received as awards as a result of the taking of all or any part of the Enterprise by the lawful exercise of eminent domain, if any, either shall be used for the acquisition and/or construction of the improvements and extension of the Enterprise or shall be placed in the appropriate funds and shall be used to pay the Installment Payments in the manner provided in this Agreement.

Covenant 4. Insurance. The Purchaser covenants that it shall at all times maintain with responsible insurers all such insurance on the Enterprise as is customarily maintained with

respect to facilities and properties of like character against accident to, loss of or damage to such Enterprise or properties. If any useful part of the Enterprise shall be damaged or destroyed, such part shall be restored to use. The money collected from insurance against accident to or destruction of the physical Enterprise shall be used for repairing or rebuilding the damaged or destroyed Enterprise, and to the extent not so applied, shall be applied to the prepayment of the Installment Payments.

The Purchaser shall also maintain with responsible insurers workmen's compensation insurance and insurance against public liability and property damage to the extent reasonably necessary to protect the Purchaser and the Gross Revenues.

The Purchaser may be self-insured up to \$500,000 for any single event.

Covenant 5. Records and Accounts. The Purchaser covenants that it shall keep proper books of record and accounts of the Enterprise, separate from all other records and accounts, in which complete and correct entries shall be made of all transactions relating to the Enterprise. Said books shall at all reasonable times be subject to the inspection of the Seller or its assigns, and the Letter of Credit Bank.

Covenant 6. No Free Service. The Purchaser covenants that, except to the extent that the Purchaser is required under agreements and/or contracts existing on the effective date of this Agreement, no water or other service from the Enterprise may be furnished or rendered to the United States of America, the State of California, or any private corporation or person free of charge, and that, except to the extent that the Purchaser is required under agreements and/or contracts existing on the effective date of this Agreement, no such service shall be rendered to the United States of America, the State of California, or any private corporation or person at rates or for consideration lower than those charged other persons for similar service. The Purchaser covenants that it shall at all times during the period any of the Certificates are Outstanding maintain and enforce valid regulations for the payment of bills for water service and that such regulations shall at all times during such period provide that the Purchaser shall discontinue water service to any user whose water bill has not been paid within the time fixed by said regulations, which shall not be more than two months from the date the water bill became delinquent.

Covenant 7. Rates and Charges. The Purchaser shall and hereby covenants that it shall prescribe, revise and collect such rates and charges for the services and facilities of the

Enterprise which, after making allowances for contingencies and error in the estimates, shall in each Fiscal Year be at least sufficient, when added to funds on hand, to pay the following amounts in the order set forth:

(a) The Installment Payments and any parity obligations as they become due and payable;

(b) All current expenses for the Maintenance and Operation Cost of the Enterprise.

(c) All payments required to meet any other obligations of the Purchaser which are charges, liens, encumbrances upon or payable from the principal and interest on the Purchaser's 1976 Water Revenue Bonds, Gross Revenues of the Enterprise, including the, Trustee's fees, unreimbursed draws on the Letter of Credit, Letter of Credit Bank fees and Tender Interest;

and the charges shall be so fixed that the Gross Revenues of the Enterprise shall be at least 1.25 times the amounts payable under (a), assuming an interest rate on the Certificates of 8% per; and shall be 1.00 times the amounts payable under each of (b) and (c), if within six months after any increase in the interest rate on the Certificates above 8% per annum, the Purchaser shall increase its rates and charges to a level sufficient to maintain the foregoing coverage.

Covenant 8. No Priority for Additional Obligations. The Purchaser covenants that no additional bonds, notes or obligations shall be issued pursuant to any law of the State of California having any priority in payment of principal or interest out of the Gross Revenues of the Enterprise over the Installment Payments to be payable out of said revenues.

Covenant 9. Limits on Additional Debt. The Purchaser covenants that, except for obligations issued to refund the Certificates, no additional indebtedness evidenced by revenue bonds, revenue notes or any other evidences of indebtedness payable out of the Water Revenue Fund and ranking on a parity with the obligation to make the Installment Payments shall be created or incurred unless:

First: The Purchaser is not in default under the terms of this Agreement; and

Second: The Net Revenues of the Enterprise, calculated on sound accounting principles, as shown by the books of the Purchaser for the latest fiscal year or the last completed 12 month period ended at least 60 days prior to the adoption of the resolution of issuance for such

additional indebtedness as shown by an audit certificate or opinion of an independent certified public accountant or firm of certified public accountants employed by the Purchaser, plus, at the option of the Purchaser, any or all of the items hereinafter in this covenant designated (a) and (b), shall have amounted to at least 1.25 times the Installment Payments due and any additional debt due in the next fiscal year immediately subsequent to the incurring of such additional indebtedness.

The items any or all of which may be added to such Net Revenues of the Enterprise for the purpose of applying the restriction contained in this covenant are the following:

(a) An allowance for Net Revenues of the Enterprise from any additions to or improvements or extensions of the Enterprise to be made with the proceeds of such additional indebtedness, and also for net revenues of the Enterprise 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 or last completed 12-month period, were not in service, all in an amount equal to 75% of the estimated additional average annual net revenues of the Enterprise to be derived from such additions, improvements and extensions for the first 36-month period in which each addition, improvement or extension, respectively, is expected to be in operation, all as shown by the certificate or opinion of a qualified independent engineer employed by the Purchaser.

(b) 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 indebtedness but which, during all or any part of such fiscal year or last completed 12-month period, was not in effect, in an amount equal to 75% of the amount by which the net revenues of the Enterprise would have been increased if such increase in charges had been in effect during the whole of such fiscal year or last completed 12-month period, as shown by the certificate or opinion of a qualified independent engineer employed by the Purchaser.

Nothing herein shall preclude the Purchaser from issuing obligations subordinate to the payment of the Installment Payments.

Covenant 10. Against Competing Utility. The Purchaser will not acquire, construct, operate or maintain, and will not, within the scope of its powers, permit any other private or public corporation, political subdivision, district or agency,

or any person whomsoever to acquire, construct, operate or maintain within the Purchaser's boundaries or any part thereof, any system or utility in competition with the Enterprise.

Covenant 11. Financial Reports. Within one hundred and eighty (180) days after the close of each fiscal year of Purchaser, Purchaser will furnish, or cause to be furnished, to Seller or its assignee and to the Letter of Credit Bank detailed certified reports of audit, based on an examination sufficiently complete, prepared by an independent certified public accountant, covering the operations of Purchaser's Water Revenue Fund and the Enterprise for said fiscal year. Such audit report shall include statements of the status of each account pertaining to the Enterprise, showing the amount and source of deposits therein, the amount and purpose of the withdrawals therefrom and the balance therein at the beginning and end of said fiscal year.

Covenant 12. Purchase of Additional Capacity. In the event of default by another defaulting Purchaser and the capacity of that defaulting Purchaser has not been acquired by another Purchaser or entity, the Purchaser agrees to purchase a portion of said defaulting Purchaser's capacity on the following conditions:

1. The purchase price for said capacity shall be not less than the payment of the balance of the Installment Payments of the defaulting Purchaser attributable to the capacity being acquired.
2. The aggregate amount of the defaulting Purchaser's capacity acquired does not exceed 25% of the original capacity of the acquiring Purchaser in the Project.

Covenant 13. Purchase of Water. Should an event of default occur hereunder the Purchaser covenants that it will obtain and pay for water from the Authority up to the amount of its originally purchased capacity interest in the Project before it will obtain, purchase, rent, lease or otherwise acquire water, or an interest in water, from any public or private source other than the Authority.

503. Prior Lien Water Revenue Bonds. The payment of the Installment Payments and all covenants and provisions of this Agreement are subject to the prior first lien on the Gross Revenues of the Enterprise created by Resolution No. ___ of the Purchaser providing for the issuance of Purchaser's 1976 Water Revenue Bonds and further subject to the rights and obligations of the Purchaser set forth in said Resolution.

ARTICLE VI

EVENTS OF DEFAULT AND REMEDIES

601. Events of Default Defined. The following shall be "events of default" under this Agreement and the terms "events of default" and "default" shall mean, whenever they are used in this Agreement, with respect to the Purchaser, any one or more of the following events, namely:

(a) Failure by Purchaser to pay any Installment Payment or other payment required to be paid hereunder at the time specified herein;

(b) Failure by Purchaser to observe and perform any covenant, condition or agreement on its part to be observed or performed, other than as referred to in clause (a) of this Section, for a period of thirty (30) days after written notice specifying such failure and requesting that it be remedied has been given to Purchaser by Seller or its assignee; provided, however, that Seller or its assignee may, upon written request of Purchaser prior to the expiration of such thirty (30) day period, consent to an extension of such time in order to cure such failure if corrective action has been instituted by Purchaser and is being diligently pursued and will, in the judgment of Seller or its assignee, be diligently pursued until the default is corrected;

(c) A court having jurisdiction in the Project shall enter a decree or order for relief in respect of Purchaser in an involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of Purchaser or for any substantial part of its property, or ordering the winding up or liquidation of its affairs, and such decree or order shall remain unstayed and in effect for a period of sixty (60) days;

(d) Purchaser shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or shall consent to the entry of an order for relief in an involuntary case under any such law, or shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator (or similar official) of Purchaser for any substantial part of its property, or shall make any general assignment for the benefit of creditors, or shall fail generally to pay its debts as they become due or shall take any corporate action in furtherance of any of the foregoing; or

The Seller shall give written notice of a default by the Purchaser to the Trustee and the Letters of Credit Bank. The Letter of Credit Bank shall have the right to cure any default under (a) and (b) hereof within thirty (30) days of receipt of such written notice.

602. Remedies on Default. Upon the happening of any of the events of default specified in Section 601 hereof, which default has not been cured by the Letter of Credit Bank as provided in Section 601 hereof, Seller or its assignee may exercise any and all remedies available pursuant to law or granted pursuant to this Agreement. Seller or its assignee is expressly authorized hereby to take over for the benefit of Seller or its assigns the Purchaser's interest in the Project described in Exhibit A of the Trust Agreement, and, in addition, at its option, to terminate this Agreement. In the event of default and notwithstanding the take-over of the Purchaser's interest in the Project by Seller or its assignee, Purchaser shall, as herein expressly provided, continue to remain liable for the payment of Installment Payments and/or damages for breach of this Agreement and the performance of all conditions herein contained and, in any event, such Installment Payments and/or damages shall be payable to Seller or its assignee at the time and in the manner set forth in subsections (a) and (b) of this Section.

(a) In the event that Seller or its assignee does not elect to terminate this Agreement pursuant to subparagraph (b) below, Purchaser agrees to and shall remain liable for the payment of Installment Payments and the performance of all conditions herein contained and shall reimburse Seller or its assignee for any deficiency arising out of the sale or leasing of the Purchaser's interest in the Project, or, in the event that Seller or its assignee is unable to sell or lease the Purchaser's interest in the Project, then for the full amount of the Installment Payments to the end of the term of this Agreement, but said Installment Payments and/or deficiency shall be payable only at the same time and in the same manner as provided in Section 305, notwithstanding such take-over of the Purchaser's capacity in the Project by Seller or its assignee or any suit in unlawful detainer, or otherwise, brought by Seller or its assignee for the purpose of effecting such take-over of the Purchaser's capacity in the Project or the exercise of any other remedy by the Seller or its assignee. Purchaser hereby irrevocably appoints Seller or its assignee as the agent and attorney-in-fact of the Purchaser to sell or lease the Purchaser's capacity in the Project in the event of default by Purchaser. Purchaser hereby exempts and agrees to save harmless Seller and its assignee from any cost, loss or damage whatsoever arising or occasioned by any such entry upon and the sale or the letting of the Purchaser's

capacity in the Project. Purchaser hereby waives any and all claims for damages caused, or which may be caused, by Seller or its assignee in entering and taking possession of the Purchaser's capacity in the Project, for all claims for damages that may result from the destruction of or injury to the Project, and all claims for damages to or loss of any property belonging to Purchaser that may be in or upon the Project. Purchaser agrees that the terms of this Agreement constitute full and sufficient notice of the right of Seller or its assignee to sell or lease the Purchaser's capacity in the Project in the event of such taking of possession without effecting a surrender of this Agreement, and further agrees that no acts of Seller or its assignee in effecting such sale or leasing shall constitute a surrender or termination of this Agreement irrespective of the term for which such sale or leasing is made, or of the terms and conditions of such sale or leasing, or otherwise, but that, on the contrary, in the event of such default by Purchaser, the right to terminate this Agreement shall vest in Seller or its assignee to be effected in the sole and exclusive manner hereinafter provided for in subsection (b) below. Purchaser shall have the right to any sale proceeds or rental obtained by Seller or its assignee in excess of the full amount of the Installment Payments herein specified.

(b) In the event of default by Purchaser and consequent termination of this Agreement at the option of Seller or its assignee in the manner hereinafter provided (and notwithstanding the taking of possession of the Purchaser's capacity in the Project by Seller or its assignee in any manner whatsoever or the sale or leasing of the Project), Purchaser nevertheless agrees to pay to Seller or its assignee all cost, loss or damages howsoever arising or occurring payable at the same time and in the same manner as in the case of payment of Installment Payments pursuant to Section 305 of the Trust Agreement. Neither notice to pay the Installment Payments or to deliver up possession of the Project given pursuant to law nor any proceeding in unlawful detainer taken by Seller or its assignee shall of itself operate to terminate this Agreement, and no termination of this Agreement on account of default by Purchaser shall be or become effective by operation of law, or otherwise, unless and until Seller or its assignee shall have given written notice to the Purchaser of the election on the part of Purchaser or its assignee to terminate this Agreement.

Each and all of the remedies given to Seller and its assignee hereunder or by any law now or hereafter enacted are cumulative and the exercise of one right or remedy shall not impair the right to Seller or its assignee to exercise any or all other remedies.

Notwithstanding the foregoing, no action shall be taken by the Seller or its assignee under this Section without the prior written consent of the Letter of Credit Bank.

603. Suits at Law or in Equity and Mandamus. In addition to the remedies set forth in Section 602 of the Trust Agreement, in case one or more of the events of default shall happen, then and in every such case, Seller and its assignee shall be entitled to proceed to protect and enforce the rights vested in the Seller by this Agreement by such appropriate judicial proceeding as Seller or its assignee shall deem most effectual to protect and enforce any such right, either by suit in equity or by action at law, whether for the specific performance of any covenant or agreement contained in this Agreement or by law. The provisions of this Agreement and the duties of Purchaser and of the officers, agents and employees thereof shall be enforceable by Seller or its assignee by mandamus or other appropriate suit, action or proceeding in any court of competent jurisdiction.

(a) Without limiting the generality of the foregoing, Seller and its assignee shall have the right:

(i) Accounting. By action or suit in equity to require the Purchaser and its officers, agents and employees to provide an accounting as the trustee of an express trust.

(ii) Injunction. By action or suit in equity to enjoin any acts or things which may be unlawful or in violation of the rights of Seller or its assignee.

(iii) Mandamus. By mandamus or other suit, action or proceeding at law or equity to enforce its or their rights against Purchaser and its and any of its officers, agents, and employees, and to compel it or them to perform and carry out its and their duties and obligations under the law and its and their covenants and agreements with Purchaser as provided herein.

604. Non-Waiver. Nothing in this Article VI or in any other provision of this Agreement shall affect or impair the obligation of Purchaser, which is to pay the Installment Payments, as herein provided. No delay or omission of Seller or its assignee to exercise any right or power arising upon the happening of any event of default shall impair any such right or power or shall be construed to be a waiver of any such event of default or any acquiescence therein, and every power and remedy given by this Article VI to Seller and its assignee may be exercised from time to time and as often as shall be deemed expedient by Seller or its assignee.

605. Remedies Not Exclusive. No remedy herein or by law conferred upon or reserved to Seller or its assignee is intended to be exclusive of any other remedy, but each such remedy is cumulative and in addition to every other remedy, and every remedy given hereunder or now or hereafter existing, at law or in equity or by statute or otherwise may be exercised without exhausting and without regard to any other remedy conferred or by any law.

606. Status Quo. In case any suit, action or proceeding to enforce any right or exercise any remedy shall be brought or taken and then discontinued or abandoned, or shall be determined adversely to Seller and its assignee, then, and in every such case, Seller and its assignee shall be restored to its former position and rights and remedies as if no such suit, action or proceedings had been brought or taken.

ARTICLE VII

ADMINISTRATIVE PROVISIONS

701. Preservation and Inspection of Documents. All documents received by Seller or its assignee or Purchaser under the provisions of this Agreement shall be retained in their respective possessions and shall be subject at all reasonable times to the inspection of the other party hereto and its assigns, agents and representatives, any of whom may make copies thereof.

702. Parties in Interest. Nothing in this Agreement, expressed or implied, is intended to or shall be construed to confer upon or to give to any person or party other than Seller, its assignee the Letter of Credit Bank and Purchaser any rights, remedies or claims under or by reason of this Agreement or any covenants, condition or stipulation of the Trust Agreement; and all covenants, stipulations, promises and agreements in this Agreement made by or on behalf of Seller or Purchaser shall be for the sole and exclusive benefit of Seller and its assignee, the Trustee and the Letter of Credit Bank and Purchaser.

703. No Recourse Under Agreement. All covenants, stipulations, promises, agreements and obligations of the parties hereto contained in this Agreement shall be deemed to be the covenants, stipulations, promises, agreements and obligations of the parties hereto, respectively, and not of any member, officer, employee or agent of the parties hereto in an individual capacity, and no recourse shall be had under this Agreement for the payment of the Installment Payments or for any claim based thereon or under this Agreement against any member, officer, employee or agent of the parties hereto.

704. Notices. All notices, certificates or other communications hereunder shall be sufficiently given and shall be deemed given when delivered or deposited in the United States mail in registered form with postage fully prepaid:

If to the Seller:

Water Facilities Authority
P. O. Box 71
Montclair, California 91763
Attn: General Manager

If to the Trustee:

Bank of America National Trust and
Savings Association
555 South Flower, Fifth Floor
Los Angeles, California
Attn: Security Services Division-Trust (213) 228-4146

If to the Letter of Credit Bank:

The Mitsubishi Bank, Ltd., Los Angeles Agency
800 Wilshire Boulevard
Los Angeles, California 90017
Attn: Letter of Credit Department

If to the Remarketing Agent:

Merrill Lynch, Pierce, Fenner
& Smith, Incorporated
Tax-Exempt Money Markets
Department 43rd Floor
One Liberty Plaza 165 Broadway
New York, New York 10080 (212) 637-8862

If to the Paying Agent:

BankAmerica Trust Company of New York
Corporate Trust Department
40 Broad Street 4th Floor
New York, New York 10064 (212) 248-6992

If to Chino:

City of Chino
13220 Central Avenue
Chino, California 91710
Attn: City Manager (714) 627-7577

If to Ontario:

City of Ontario
303 East B Street
Ontario, California 91764
Attn: City Manager

(714) 986-1151

If to Upland:

City of Upland
460 N. Euclid Avenue
Upland, California 91786
Attn: City Manager

(714) 982-1352

If to County:

San Bernardino County Waterworks
District No. 8
13260 Central Avenue
Chino, California 91710
Attn: Chino Valley Manager

(714) 627-7575

If to Monte Vista:

Monte Vista Water District
10575 Central Avenue
Montclair, California 91763
Attn: General Manager

(714) 624-0035

The parties hereto, by notice given hereunder, may, respectively designate different addresses to which subsequent notices, certificates or other communications will be sent.

705. Binding Effect. This Agreement shall inure to the benefit of and shall be binding upon Seller and Purchaser and their respective successors and assigns.

706. Severability. If any one or more of the covenants, stipulations, promises, agreements or obligations provided in this Agreement on the part of Seller or Purchaser to be performed should be determined by a court of competent jurisdiction to be contrary to law, then such covenant, stipulation, promise, agreement or obligation shall be deemed and construed to be severable from the remaining covenants, stipulations, promises, agreements and obligations herein contained and shall in no way affect the validity of the other provisions of this Agreement.

707. Headings. Any headings preceding the text of the several Articles and Sections of the Trust Agreement, and any table of contents or marginal notes appended to copies of the

Trust Agreement, shall be solely for convenience or reference and shall not constitute a part of this Agreement, nor shall they affect its meaning, construction or effect.

708. Applicable Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California.

709. Seller and Purchaser Representatives. Whenever under the provisions of this Agreement the approval of Seller or its assignee or Purchaser is required, or Seller or its assignee or Purchaser are required to take some action at the request of the other, such approval of such request may be given for Seller by an Authorized Representative of Seller, for assignees of Seller by an authorized representative thereof, and for Purchaser by an Authorized Representative of City, and any party hereto shall be authorized to rely upon any such approval or request.

710. Form of Certificate of Officers. Every certificate with respect to compliance with a condition or covenant provided for in this Agreement and which is precedent to the taking of any action under this Agreement shall include:

(a) A statement that the person making or giving such certificate has read such covenant or condition and the definitions herein relating thereto;

(b) A brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate are based;

(c) A statement that, in the opinion of the signer, he has made or caused to be made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(d) A statement as to whether, in the opinion of the signer, such condition or covenant has been complied with.

A certificate may be based, insofar as its relates to legal matters, upon a certificate or opinion of or representations by counsel, unless the persons provided the certificate know that the certificate or representations with respect to the matters upon which the certificate may be based are erroneous, or in the exercise of reasonable care should have known that the same were erroneous.

711. Counterpart. This Installment Agreement may be executed in counterpart.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed in their respective names by their duly authorized officers as of the date first above written.

WATER FACILITIES AUTHORITY, as
Seller

By: 

Chairman

By: 

Secretary

CITY OF ONTARIO, as Purchaser

By: 

Mayor

pro Tem

ATTEST:



City Clerk

EXHIBIT A

<u>COMPONENT</u>	<u>UPLAND</u>	<u>MVWD</u>	<u>ONTARIO</u>	<u>CHINO</u>	<u>SBC#8</u>
Treatment Plant	29.4118	14.7059	29.4118	11.7647	14.7059
Pipeline to 8th Street	.0000	23.8095	47.6190	28.5714	.0000
Pipeline to 8th Street	.0000	.0000	100.0000	.0000	.0000
Pipeline to 8th Street	.0000	.0000	.0000	100.0000	.0000
Connections	20.0000	20.0000	40.0000	20.0000	.0000
Energy R. S. Ontario	.0000	.0000	100.0000	.0000	.0000
Energy R.S. Chino	.0000	.0000	.0000	100.0000	.0000
Energy R.S. Ontario, Chino	.0000	.0000	55.5555	44.4445	.0000

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EXHIBIT B

Installment Payments

Payment Date	Principal Component	Interest* Component	Total Payment
-----	-----	-----	-----
15-Dec-85	\$0.00	\$265,800.33	\$265,800.33
01-Apr-86	0.00	265,800.33	265,800.33
01-Jul-86	0.00	265,800.33	265,800.33
01-Oct-86	0.00	265,800.33	265,800.33
01-Jan-87	0.00	265,800.33	265,800.33
01-Apr-87	0.00	265,800.33	265,800.33
01-Jul-87	0.00	265,800.33	265,800.33
01-Oct-87	9,574.94	265,800.33	275,375.27
01-Jan-88	9,574.94	265,800.33	275,375.27
01-Apr-88	9,574.94	265,800.33	275,375.27
01-Jul-88	9,574.94	265,800.33	275,375.27
01-Oct-88	9,574.94	265,034.34	274,609.28
01-Jan-89	9,574.94	265,034.34	274,609.28
01-Apr-89	9,574.94	265,034.34	274,609.28
01-Jul-89	9,574.94	265,034.34	274,609.28
01-Oct-89	19,149.88	264,268.34	283,418.22
01-Jan-90	19,149.88	264,268.34	283,418.22
01-Apr-90	19,149.88	264,268.34	283,418.22
01-Jul-90	19,149.88	264,268.34	283,418.22
01-Oct-90	19,149.88	262,736.35	281,886.23
01-Jan-91	19,149.88	262,736.35	281,886.23
01-Apr-91	19,149.88	262,736.35	281,886.23
01-Jul-91	19,149.88	262,736.35	281,886.23
01-Oct-91	19,149.88	261,204.36	280,354.24
01-Jan-92	19,149.88	261,204.36	280,354.24
01-Apr-92	19,149.88	261,204.36	280,354.24
01-Jul-92	19,149.88	261,204.36	280,354.24
01-Oct-92	19,149.88	259,672.37	278,822.25
01-Jan-93	19,149.88	259,672.37	278,822.25
01-Apr-93	19,149.88	259,672.37	278,822.25
01-Jul-93	19,149.88	259,672.37	278,822.25
01-Oct-93	28,724.82	258,140.38	286,865.20
01-Jan-94	28,724.82	258,140.38	286,865.20
01-Apr-94	28,724.82	258,140.38	286,865.20
01-Jul-94	28,724.82	258,140.38	286,865.20
01-Oct-94	28,724.82	255,842.40	284,567.22
01-Jan-95	28,724.82	255,842.40	284,567.22
01-Apr-95	28,724.82	255,842.40	284,567.22
01-Jul-95	28,724.82	255,842.40	284,567.22
01-Oct-95	38,299.76	253,544.41	291,844.17
01-Jan-96	38,299.76	253,544.41	291,844.17
01-Apr-96	38,299.76	253,544.41	291,844.17
01-Jul-96	38,299.76	253,544.41	291,844.17

Gulfano #2

01-Oct-96	38,299.76	250,480.43	288,780.19
01-Jan-97	38,299.76	250,480.43	288,780.19
01-Apr-97	38,299.76	250,480.43	288,780.19
01-Jul-97	38,299.76	250,480.43	288,780.19
01-Oct-97	47,874.70	247,416.45	295,291.15
01-Jan-98	47,874.70	247,416.45	295,291.15
01-Apr-98	47,874.70	247,416.45	295,291.15
01-Jul-98	47,874.70	247,416.45	295,291.15
01-Oct-98	47,874.70	243,586.47	291,461.17
01-Jan-99	47,874.70	243,586.47	291,461.17
01-Apr-99	47,874.70	243,586.47	291,461.17
01-Jul-99	47,874.70	243,586.47	291,461.17
01-Oct-99	57,449.64	239,756.50	297,206.14
01-Jan-2000	57,449.64	239,756.50	297,206.14
01-Apr-2000	57,449.64	239,756.50	297,206.14
01-Jul-2000	57,449.64	239,756.50	297,206.14
01-Oct-2000	67,024.58	235,160.53	302,185.11
01-Jan-2001	67,024.58	235,160.53	302,185.11
01-Apr-2001	67,024.58	235,160.53	302,185.11
01-Jul-2001	67,024.58	235,160.53	302,185.11
01-Oct-2001	76,599.52	229,798.56	306,398.08
01-Jan-2002	76,599.52	229,798.56	306,398.08
01-Apr-2002	76,599.52	229,798.56	306,398.08
01-Jul-2002	76,599.52	229,798.56	306,398.08
01-Oct-2002	86,174.46	223,670.60	309,845.06
01-Jan-2003	86,174.46	223,670.60	309,845.06
01-Apr-2003	86,174.46	223,670.60	309,845.06
01-Jul-2003	86,174.46	223,670.60	309,845.06
01-Oct-2003	95,749.40	216,776.64	312,526.04
01-Jan-2004	95,749.40	216,776.64	312,526.04
01-Apr-2004	95,749.40	216,776.64	312,526.04
01-Jul-2004	95,749.40	216,776.64	312,526.04
01-Oct-2004	114,899.28	209,116.69	324,015.97
01-Jan-2005	114,899.28	209,116.69	324,015.97
01-Apr-2005	114,899.28	209,116.69	324,015.97
01-Jul-2005	114,899.28	209,116.69	324,015.97
01-Oct-2005	124,474.22	199,924.75	324,398.97
01-Jan-2006	124,474.22	199,924.75	324,398.97
01-Apr-2006	124,474.22	199,924.75	324,398.97
01-Jul-2006	124,474.22	199,924.75	324,398.97
01-Oct-2006	143,624.10	189,966.81	333,590.91
01-Jan-2007	143,624.10	189,966.81	333,590.91
01-Apr-2007	143,624.10	189,966.81	333,590.91
01-Jul-2007	143,624.10	189,966.81	333,590.91
01-Oct-2007	172,348.92	178,476.88	350,825.80
01-Jan-2008	172,348.92	178,476.88	350,825.80
01-Apr-2008	172,348.92	178,476.88	350,825.80
01-Jul-2008	172,348.92	178,476.88	350,825.80
01-Oct-2008	191,498.80	164,688.97	356,187.77
01-Jan-2009	191,498.80	164,688.97	356,187.77

Ontario #3

01-Apr-2009	191,498.80	164,688.97	356,187.77
01-Jul-2009	191,498.80	164,688.97	356,187.77
01-Oct-2009	220,223.62	149,369.06	369,592.68
01-Jan-2010	220,223.62	149,369.06	369,592.68
01-Apr-2010	220,223.62	149,369.06	369,592.68
01-Jul-2010	220,223.62	149,369.06	369,592.68
01-Oct-2010	248,948.44	131,751.17	380,699.61
01-Jan-2011	248,948.44	131,751.17	380,699.61
01-Apr-2011	248,948.44	131,751.17	380,699.61
01-Jul-2011	248,948.44	131,751.17	380,699.61
01-Oct-2011	287,248.20	111,835.30	399,083.50
01-Jan-2012	287,248.20	111,835.30	399,083.50
01-Apr-2012	287,248.20	111,835.30	399,083.50
01-Jul-2012	287,248.20	111,835.30	399,083.50
01-Oct-2012	325,547.96	88,855.44	414,403.40
01-Jan-2013	325,547.96	88,855.44	414,403.40
01-Apr-2013	325,547.96	88,855.44	414,403.40
01-Jul-2013	325,547.96	88,855.44	414,403.40
01-Oct-2013	363,847.72	62,811.61	426,659.33
01-Jan-2014	363,847.72	62,811.61	426,659.33
01-Apr-2014	363,847.72	62,811.61	426,659.33
01-Jul-2014	363,847.72	62,811.61	426,659.33
01-Oct-2014	421,297.36	33,703.79	455,001.15
01-Jan-2015	421,297.36	33,703.79	455,001.15
01-Apr-2015	421,297.36	33,703.79	455,001.15
01-Jul-2015	421,297.36	33,703.79	455,001.15

- * During the period that Certificates bear interest at an Adjusted Interest Rate, the Interest Component shall be computed at 8.0%, or at the highest Adjusted Interest Rate during the preceding three (3) months period, whichever is higher. Following conversion to a Fixed Rate of Interest, the Interest Component shall be the Fixed Rate of Interest.