

---

---

2018 INSTALLMENT PURCHASE CONTRACT

by and between the

CITY OF STOCKTON

and the

STOCKTON PUBLIC FINANCING AUTHORITY

RELATING TO THE  
CITY OF STOCKTON  
2002 WATER PROJECT, 2005 WATER PROJECT AND 2009 WATER PROJECT

Dated as of November 1, 2018

---

---

## TABLE OF CONTENTS

## EXHIBIT 2

### Page

#### ARTICLE I DEFINITIONS

SECTION 1.01.	Definitions.....	2
---------------	------------------	---

#### ARTICLE II REFUNDING THE INSTALLMENT PAYMENTS DUE FOR THE PRIOR WATER PROJECTS

SECTION 2.01.	Refunding of the Installment Payments for the Prior Water Projects.....	15
---------------	--	----

#### ARTICLE III 2018 INSTALLMENT PAYMENTS

SECTION 3.01.	Refunding Price .....	15
SECTION 3.02.	Payment of the 2018 Installment Payments.....	16
SECTION 3.03.	Prepayment of the 2018 Installment Payments.....	17

#### ARTICLE IV REVENUES

SECTION 4.01.	Pledge of Net System Revenues; Springing Pledge of Revenues; City Revenue Fund.....	17
SECTION 4.02.	Allocation of Net System Revenues and Available Revenues .....	18
SECTION 4.03.	Additional Obligations.....	20

#### ARTICLE V COVENANTS OF THE CITY

SECTION 5.01.	Compliance with and Amendment of 2018 Contract .....	22
SECTION 5.02.	Against Encumbrances.....	23
SECTION 5.03.	Against Sale or Other Disposition of Property .....	23
SECTION 5.04.	Against Competitive Facilities.....	23
SECTION 5.05.	Tax Covenants .....	23
SECTION 5.06.	Maintenance and Operation of the Water System .....	24
SECTION 5.07.	Payment of Claims .....	24
SECTION 5.08.	Compliance with Contracts.....	24
SECTION 5.09.	Insurance .....	24
SECTION 5.10.	Accounting Records; Financial Statements and Other Reports .....	24
SECTION 5.11.	Protection of Security and Rights of Authority .....	25
SECTION 5.12.	Payment of Taxes and Compliance with Governmental Regulations .....	25

## TABLE OF CONTENTS

## EXHIBIT 2

	<u>Page</u>
SECTION 5.13.	Amount of Charges, Fees and Rates; Rate Stabilization Fund .....
	25
SECTION 5.14.	Eminent Domain and Insurance Proceeds .....
	25
SECTION 5.15.	Continuing Disclosure .....
	25
SECTION 5.16.	Further Assurances.....
	26
 ARTICLE VI EVENTS OF DEFAULT AND REMEDIES OF THE AUTHORITY  	
SECTION 6.01.	Events of Default .....
	26
SECTION 6.02.	Distribution of Assets .....
	27
SECTION 6.03.	Other Remedies of the Authority .....
	29
SECTION 6.04.	Non-Waiver.....
	29
SECTION 6.05.	Remedies Not Exclusive .....
	29
 ARTICLE VII DISCHARGE OF OBLIGATIONS  	
SECTION 7.01.	Discharge of Obligations .....
	30
 ARTICLE VIII MISCELLANEOUS  	
SECTION 8.01.	Liability of City Limited to Available Revenues.....
	30
SECTION 8.02.	Benefits of Contract Limited to Parties and Beneficiary .....
	30
SECTION 8.03.	Assignment .....
	31
SECTION 8.04.	Successor is Deemed Included in all References to Predecessor .....
	31
SECTION 8.05.	Waiver of Personal Liability .....
	31
SECTION 8.06.	Article and Section Headings, Gender and References .....
	31
SECTION 8.07.	Partial Invalidity.....
	31
SECTION 8.08.	Net Contract .....
	31
SECTION 8.09.	California Law .....
	32
SECTION 8.10.	Notices .....
	32
SECTION 8.11.	Effective Date .....
	32
SECTION 8.12.	Execution in Counterparts.....
	32
EXHIBIT A	2018 INSTALLMENT PAYMENT SCHEDULE .....
	A-1

2018 INSTALLMENT PURCHASE CONTRACT

This 2018 Installment Purchase Contract (the “2018 Contract”), dated as of November 1, 2018, by and between the City of Stockton, a municipal corporation and chartered city duly organized and existing under and by virtue of the Constitution and laws of the State of California and its charter (the “City”), and the Stockton Public Financing Authority, a joint exercise of powers entity duly organized and existing under and by virtue of the laws of the State of California (the “Authority”);

W I T N E S S E T H:

WHEREAS, the City is authorized by law to purchase improvements for the municipal water system of the City; and

WHEREAS, the City and the California Statewide Communities Development Authority (“CSCDA”) previously entered into an Installment Purchase Agreement, dated as of May 1, 2002 (the “2002 Installment Purchase Agreement”), whereby CSCDA agreed to sell certain improvements to the City’s water system (the “2002 Water Project”) to the City and the City agreed to purchase such improvements from CSCDA for the purpose of financing and refinancing the 2002 Water Project; and

WHEREAS, in connection with the 2002 Installment Purchase Agreement, CSCDA issued its Water and Wastewater Revenue Bonds (Pooled Financing Program), Series 2002A (the “2002 Bonds”) pursuant to an Indenture, dated as of May 1, 2002 (the “2002 Indenture”), between CSCDA and MUFG Union Bank, N.A. (formerly Union Bank of California, N.A.), as trustee, for the purpose, among others, of financing and refinancing the 2002 Water Project; and

WHEREAS, the City and the Authority previously entered into an Installment Purchase Agreement, dated as of November 1, 2005 (the “2005 Installment Purchase Agreement”), whereby the Authority agreed to sell certain improvements to the City’s water system (the “2005 Water Project”) to the City and the City agreed to purchase such improvements from the Authority for the purpose of financing the 2005 Water Project; and

WHEREAS, in connection with the 2005 Installment Purchase Agreement, the Authority issued its 2005 Water Revenue Bonds, Series A (Water System Capital Improvement Projects) (the “2005 Bonds”) pursuant to an Indenture of Trust, dated as of November 1, 2005 (the “2005 Indenture”), between the Authority and Wells Fargo Bank, National Association, as trustee, for the purpose of financing the 2005 Water Project; and

WHEREAS, the City and the Authority previously entered into a 2009 Installment Purchase Contract, dated as of August 1, 2009 (the “2009 Installment Purchase Contract” and, together with the 2002 Installment Purchase Agreement and the 2005 Installment Purchase Agreement, the “Prior Installment Purchase Agreements”), whereby the Authority agreed to sell certain improvements to the City’s water system (the “2009 Water Project” and, together with the 2002 Water Project and the 2005 Water Project, the “Prior Water Projects”) to the City and the City agreed to purchase such improvements from the Authority for the purpose of financing the 2009 Water Project; and

WHEREAS, in connection with the 2009 Installment Purchase Contract, the Authority issued its Water Revenue Bonds, Taxable Build America Bonds Series 2009B (Delta Water Supply Project) (the “2009B Bonds”) pursuant to a 2009 Indenture, dated as of August 1, 2009 (the “2009 Indenture”), between the Authority and Wells Fargo Bank, National Association, as trustee, for the purpose of financing a portion of the 2009 Water Project; and

WHEREAS, the City has determined that the refinancing of the Prior Water Projects by refunding the obligations of the City under the Prior Installment Purchase Agreements, as provided in this 2018 Contract, is necessary and proper for the City and is in the public interest, and the Authority has determined to assist the City in the foregoing by refunding the City’s remaining obligations under the Prior Installment Purchase Agreements and thereby refunding a portion of the outstanding 2002 Bonds, all of the outstanding 2005 Bonds and all of the outstanding 2009B Bonds; and

WHEREAS, in order to refinance the Prior Water Projects the City has agreed to make scheduled installment payments to the Authority, together with interest thereon, which installment payments are to be secured by a pledge of and lien on certain revenues of the City’s municipal water system (the “Water System”) (as further described herein, the “Net System Revenues”), as provided herein; and

WHEREAS, the pledge of and lien on Net System Revenues securing the installment payments provided hereunder is to be subordinate to the security interest securing the Senior Obligations (as defined herein); and

WHEREAS, the City and the Authority hereby certify that all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in connection with the execution and entering into of the 2018 Contract do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the parties hereto are now duly authorized to execute and enter into the 2018 Contract;

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

## ARTICLE I

### DEFINITIONS

SECTION 1.01. Definitions. Unless the context otherwise requires, the terms defined in this section shall for all purposes hereof and of any amendment hereof and of any report or other document mentioned herein or therein have the meanings defined herein, the following definitions to be equally applicable to both the singular and plural forms of any of the terms defined herein. Unless a contrary intent is expressed in this 2018 Contract, capitalized terms used but not defined in this 2018 Contract shall have the meanings given in the 2018 Indenture.

2002 Bonds

“2002 Bonds” means the California Statewide Communities Development Authority Water and Wastewater Revenue Bonds (Pooled Financing Program), Series 2002A, which were issued pursuant to the 2002 Indenture.

2002 Indenture

“2002 Indenture” means that certain Indenture, dated as of May 1, 2002, by and between California Statewide Communities Development Authority and MUFG Union Bank, N.A. (formerly Union Bank of California, N.A.), as trustee.

2002 Installment Purchase Agreement

“2002 Installment Purchase Agreement” means that certain Installment Purchase Agreement, dated as of May 1, 2002, by and between the City and California Statewide Communities Development Authority.

2002 Trustee

“2002 Trustee” means MUFG Union Bank, N.A. (formerly Union Bank of California, N.A.), as trustee in connection with the 2002 Bonds.

2002 Water Project

“2002 Water Project” means those certain improvements to the City’s water system financed and refinanced through the 2002 Installment Purchase Agreement.

2005 Bonds

“2005 Bonds” means the Stockton Public Financing Authority 2005 Water Revenue Bonds, Series A (Water System Capital Improvement Projects), which were issued pursuant to the 2005 Indenture.

2005 Indenture

“2005 Indenture” means that certain Indenture of Trust, dated as of November 1, 2005, by and among the Authority and Wells Fargo Bank, National Association, as trustee.

2005 Installment Purchase Agreement

“2005 Installment Purchase Agreement” means that certain Installment Purchase Agreement, dated as of November 1, 2005, by and between the City and the Authority.

2005 Trustee

“2005 Trustee” means Wells Fargo Bank, National Association, as trustee in connection with the 2005 Bonds.

2005 Water Project

“2005 Water Project” means those certain improvements to the City’s water system financed through the 2005 Installment Purchase Agreement.

2009B Bonds

“2009B Bonds” means the Stockton Public Financing Authority Water Revenue Bonds, Taxable Build America Bonds Series 2009B (Delta Water Supply Project), which were issued pursuant to the 2009 Indenture.

2009 Indenture

“2009 Indenture” means that certain 2009 Indenture, dated as of August 1, 2009, by and between the Authority and the 2009 Trustee.

2009 Installment Purchase Contract

“2009 Installment Purchase Contract” means that certain 2009 Installment Purchase Contract, dated as of August 1, 2009, by and between the City and the Authority.

2009 Trustee

“2009 Trustee” means Wells Fargo Bank, National Association, as trustee in connection with the 2009B Bonds.

2009 Water Project

“2009 Water Project” means those certain improvements to the City’s water system financed through the 2009 Installment Purchase Contract.

2010 Installment Purchase Contract

“2010 Installment Purchase Contract” means that certain Installment Purchase Contract, dated as of October 1, 2010, by and between the City and the Authority, as originally executed and as it may from time to time be amended in accordance with its terms.

2018 Contract

“2018 Contract” means this 2018 Installment Purchase Contract, dated as of November 1, 2018, by and between the City and the Authority, as originally executed and as it may from time to time be amended in accordance herewith.

2018 Bonds

“2018 Bonds” means the Authority’s Water Revenue Refunding Bonds, Series 2018 issued and outstanding under the 2018 Indenture.

2018 Indenture

“2018 Indenture” means that certain 2018 Indenture, dated as of November 1, 2018, by and between the Authority and the 2018 Trustee, as originally executed and as it may from time to time be amended or supplemented in accordance with its terms.

2018 Installment Payment Date

“2018 Installment Payment Date” has the meaning set forth in Section 3.02.

2018 Installment Payment Fund

“2018 Installment Payment Fund” means the Stockton Public Financing Authority 2018 Installment Payment Fund established pursuant to Section 3.02 of the 2018 Indenture.

2018 Installment Payments

“2018 Installment Payments” means the installment payments scheduled to be paid by the City hereunder and set forth in Exhibit A hereto.

2018 Trustee

“2018 Trustee” means Wells Fargo Bank, National Association, a national banking association duly organized and existing under and by virtue of the laws of the United States of America, at its Principal Corporate Trust Office, as trustee under the 2018 Indenture, and any successors thereto.

2018 Reserve Account

“2018 Reserve Account” means the account within the 2018 Installment Payment Fund by that name established pursuant to Section 3.03 of the 2018 Indenture.

Accountant’s Report

“Accountant’s Report” means an audited financial report prepared and signed by an Independent Certified Public Accountant.

Act

“Act” means the Joint Exercise of Powers Act (being Chapter 5 of Division 7 of Title 1 of the Government Code of the State, as amended) and all laws amendatory thereof or supplemental thereto.

Adjusted Available Revenues

“Adjusted Available Revenues” means, for any Fiscal Year or other period of calculation, the Available Revenues for such Fiscal Year or other period of calculation less, to the extent included in the calculation of Net System Revenues for such Fiscal Year or other period of calculation, all amounts referred to in clause (G) of the definition of Parity Debt



Service received or expected to be received by the City or fiduciary, on behalf of the City, in such Fiscal Year or other period of calculation; provided, that if the Senior Obligations shall hereafter be deemed to be paid and no longer outstanding pursuant to their terms, all references in this 2018 Contract to “Adjusted Available Revenues” shall refer instead to “Adjusted Net System Revenues.”

#### Adjusted Net System Revenues

“Adjusted Net System Revenues” means, for any Fiscal Year or other period of calculation, the Net System Revenues for such Fiscal Year or other period of calculation less, to the extent included in the calculation of Net System Revenues for such Fiscal Year or other period of calculation, all amounts referred to in clause (G) of the definition of Parity Debt Service received or expected to be received by the City or fiduciary, on behalf of the City, in such Fiscal Year or other period of calculation.

#### Authority

“Authority” means the Stockton Public Financing Authority, a joint exercise of powers entity duly organized and existing under and by virtue of the Act.

#### Available Revenue Account

“Available Revenue Account” means the account by that name established within the City Revenue Fund pursuant to Section 4.01(e).

#### Available Revenues

“Available Revenues” means all Net System Revenues remaining on the first Business Day of each month after the payment or setting aside of all payments, transfers and other deposits with respect to the Senior Obligations required to be made in such month pursuant to the terms of the Senior Obligations; provided, that if the Senior Obligations shall hereafter be deemed to be paid and no longer outstanding pursuant to their terms, all references in this 2018 Contract to “Available Revenues” shall refer instead to “Net System Revenues.”

#### Balloon Obligation

“Balloon Obligation” means any Parity Obligation designated as such in such obligation or in the related Issuing Document.

#### Balloon Payments

“Balloon Payments” means any payments designated as such in any Balloon Obligation or in the related Issuing Document.

City

“City” means the City of Stockton, a municipal corporation and chartered city duly organized and existing under and by virtue of the Constitution and laws of the State and its charter.

City Revenue Fund

“City Revenue Fund” means the System Revenue Fund established pursuant to the Senior Obligations and continued hereunder.

Code

“Code” means the Internal Revenue Code of 1986 and the regulations of the United States Department of the Treasury issued thereunder, and in this regard reference to any particular section of the Code shall include reference to all successor sections of the Code.

Consultant

The term “Consultant” means the consultant, consulting firm, financial consultant, financial consulting firm, engineer, architect, engineering firm, architectural firm, accountant or accounting firm retained by the City to perform acts or carry out the duties provided for such consultant in this 2018 Contract. Such consultant, consulting firm, financial consultant, financial consulting firm, engineer, architect, engineering firm or architectural firm shall be nationally or regionally recognized within its profession for work of the character required. Any such accountants or accounting firms shall be an Independent Certified Public Accountant.

Coverage Requirement

“Coverage Requirement” means, for any Fiscal Year or any other period of calculation, an amount of Adjusted Available Revenues equal to at least one hundred fifteen per cent (115%) of Parity Debt Service for such Fiscal Year or other period of calculation, as applicable.

Credit Provider Reimbursement Obligations

“Credit Provider Reimbursement Obligations” means obligations of the City to repay, from Available Revenues or Net System Revenues, amounts advanced by a municipal bond insurance company, bank or other financial institution or organization as credit support or liquidity for Parity Obligations.

Event of Default

“Event of Default” means an event defined as such in Section 6.01(a), (b), (c), (d) or (e).

Fiscal Year

“Fiscal Year” means the twelve-month period terminating on June 30 of each year, or any other annual accounting period hereafter selected and designated by the City as its Fiscal Year in accordance with applicable law.

Fitch

“Fitch” means Fitch, Inc., a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors or assigns, but only to the extent that such entity is then rating any Parity Obligations at the request of the Authority.

Generally Accepted Accounting Principles

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

Independent Certified Public Accountant

“Independent Certified Public Accountant” means any firm of certified public accountants, appointed and paid by the City, and each of whom --

- (1) is in fact independent and not under the domination of the City;
- (2) does not have a substantial financial interest, direct or indirect, in the operations of the City; and
- (3) is not connected with the City as a councilmember, officer or employee of the City, but which firm may be regularly retained by the City to audit the accounting records of the City and make reports thereon to the City.

Issuing Document

“Issuing Document” means this 2018 Contract and any other installment purchase contract, indenture, trust agreement or other document that provides for the issuance of Parity Obligations.

Moody’s

“Moody’s” means Moody’s Investors Service, a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors or assigns, but only to the extent that such entity is then rating any Parity Obligations at the request of the Authority.

### Net System Revenues

“Net System Revenues” means, for any period, the System Revenues during such period less the Operation and Maintenance Costs during such period.

### Operation and Maintenance Costs

“Operation and Maintenance Costs” means the reasonable and necessary costs paid or incurred by the City for maintaining and operating the Water System, determined in accordance with Generally Accepted Accounting Principles, including all costs of water or capacity purchased or otherwise acquired for the Water System whether or not such water or capacity is delivered or capable of being delivered or otherwise made available to or received by or for the account of the Water System and all costs of treating water for the Water System and all expenses necessary to maintain and preserve the Water System in good repair and working order and including all administrative and management costs of the City that are charged directly or apportioned to the operation of the Water System, such as salaries and wages of employees, overhead, taxes (if any) and insurance premiums (including payments required to be paid into any self-insurance funds), and including all other reasonable and necessary costs of the City or charges required to be paid by it to comply with the terms hereof, the Senior Obligations or of any Parity Obligations, but excluding in all cases (i) depreciation, replacement and obsolescence charges or reserves therefor, (ii) amortization of intangibles, (iii) costs of capital additions, replacements, betterments, extensions or improvements to the Water System which under Generally Accepted Accounting Principles are chargeable to a capital account, and (iv) charges for the payment of principal and interest on any debt service on account of any Senior Obligation, Parity Obligation or obligation subordinate to the Parity Obligations.

### Parity Debt Service

“Parity Debt Service” means, with respect to any Parity Obligation for any period of calculation, those portions of the payments of interest on and principal and redemption premiums, if any, required to be made during such period under such Parity Obligation, less any such interest that is to be paid from proceeds of such Parity Obligation, less the earnings to be derived from the investment of moneys on deposit in debt service reserve funds and capitalized interest funds established for such Parity Obligation; provided, that for purposes of the calculation of Parity Debt Service, the following shall apply:

(A) Interest on Variable Interest Rate Obligations. Interest on any Variable Interest Rate Obligation shall be assumed to bear interest at a fixed rate equal to the higher of:

- (1) the actual rate on the date of calculation, or if such Parity Obligation is not yet outstanding, the initial rate (if established and binding); or
- (2) if such Parity Obligation has been outstanding for at least twelve months, the average rate over the twelve months immediately preceding the date of calculation, or if such Parity Obligation has not been outstanding for the twelve prior months, the average rate borne by reference to an index comparable to that to be utilized in determining the interest rate for the Parity Obligation to be issued.

(B) Interest on Parity Obligations with respect to which a Payment Agreement is in force. For purposes of the definition of Parity Debt Service, interest deemed to be payable on any Parity Obligation with respect to which a Payment Agreement is in force shall be based on the net economic effect on the City expected to be produced by the terms of such Parity Obligation and such Payment Agreement, including but not limited to the effects that (i) such Parity Obligation would, but for such Payment Agreement, be treated as an obligation bearing interest at a Variable Interest Rate instead shall be treated as an obligation bearing interest at a fixed interest rate, and (ii) such Parity Obligation would, but for such Payment Agreement, be treated as an obligation bearing interest at a fixed interest rate instead shall be treated as an obligation bearing interest at a Variable Interest Rate; and accordingly, the amount of interest deemed to be payable on any Parity Obligation with respect to which a Payment Agreement is in force shall be an amount equal to the amount of interest that would be payable at the rate or rates stated in such Parity Obligation plus the applicable Payment Agreement Payments minus the applicable Payment Agreement Receipts, and for the purpose of calculating as nearly as practicable the Payment Agreement Receipts and the Payment Agreement Payments under such Parity Obligation, the following assumptions shall be made:

(1) City Obligated to Pay Net Variable Payments. If a Payment Agreement has been entered into by the City with respect to a Parity Obligation resulting in the payment of a net variable interest rate with respect to such Parity Obligation and Payment Agreement by the City, the interest rate on such Parity Obligation for future periods when the actual interest rate cannot yet be determined shall be assumed, during the period the Payment Agreement is in effect, to be equal to the sum of (i) the fixed rate or rates stated in such Parity Obligation, minus (ii) the fixed rate paid by the counterparty to the City, plus (iii) the lesser of (A) the interest rate cap, if any, provided by the counterparty with respect to such Payment Agreement (but only during the period that such interest rate cap is in effect) and (B) the higher of (x) the actual variable rate or rates payable by the City to the Counterparty pursuant to the Payment Agreement on the date of calculation, or if such Payment Agreement is not yet outstanding, the initial rate (if established and binding) and (y) if such Payment Agreement has been in effect for at least twelve months, the average variable rate or rates payable by the City to the counterparty pursuant to the Payment Agreement over the twelve months immediately preceding the date of calculation, or if such Payment Agreement has not been outstanding for the twelve prior months, the average variable rate or rates that would have been payable by the City to the counterparty pursuant to such Payment Agreement for the twelve prior months determined by reference to an index comparable to that to be utilized in determining the variable rate for the Payment Agreement to be executed.

(2) City Obligated to Pay Net Fixed Payments. If a Payment Agreement has been entered into by the City with respect to a Parity Obligation which is reasonably believed, in the opinion of a financial consultant or financial consulting firm, to result in the payment of a net fixed interest rate with respect to such Parity Obligation and Payment Agreement by the City, the interest on such Parity Obligation shall be included in the calculation of the Parity Debt Service during the period the Payment Agreement is in effect by including for each calculation period an amount equal to the amount of interest payable at the fixed interest rate pursuant to such Payment Agreement;

(C) For purposes of calculating the Parity Debt Service on any Balloon Obligation, it shall be assumed that the principal of such Balloon Obligation will be amortized in a manner resulting in approximately equal annual installments of debt service over a term of thirty (30) years from the date of calculation of Parity Debt Service, at an assumed interest rate determined by reference to subparagraph (A) of this definition of Parity Debt Service;

(D) For purposes of any Parity Obligation or portions thereof the debt service requirements under which contain no current interest component but which are sold at a discount and which discount accretes with respect to such Parity Obligation or portions thereof, such accreted discount shall be treated as interest in the calculation of Parity Debt Service;

(E) For purposes of any Parity Obligations that constitute paired obligations, the interest rate on such Parity Obligations shall be the resulting linked rate or the effective fixed interest rate (each as certified by a financial consultant or financial consulting firm) reasonably expected to be paid by the City with respect to such paired obligations;

(F) The amount on deposit in a debt service reserve fund with respect to a Parity Obligation on any date of calculation of Parity Debt Service shall be deducted from the amount of principal due at the final maturity of such Parity Obligation to the extent the amount in such debt service reserve fund is in excess of such amount of principal, such excess shall be applied to the full amount of principal due, in each preceding year, in inverse order of due date, until such amount is exhausted;

(G) If, under any statutory scheme, during any period of calculation the City or a fiduciary, on behalf of the City, receives or expects to receive any subsidy, reimbursement or other payment from a governmental entity (including, but not limited to, the federal government of the United States of America) in connection with, or related to, payments of principal of and/or interest on Parity Obligations, then principal of and/or interest on such Parity Obligations during such period of calculation shall be disregarded and not included in calculating Parity Debt Service to the extent that such subsidy, reimbursement or other payment is received or expected to be received by the City or fiduciary, on behalf of the City, during such period of calculation;

(H) If any Parity Obligations feature an option, on the part of the owners, or a requirement under the terms of such Parity Obligations, to tender all or a portion of such Parity Obligations to the City, or other fiduciary or agent, and to purchase such Parity Obligations or portion thereof if properly presented, then for purposes of determining the amounts due in any

period with respect to such Parity Obligations, the options or obligations of the owners of such Parity Obligations to tender the same for purchase or payment shall be ignored;

(I) Payments on Parity Obligations shall be excluded to the extent such payments are to be paid from amounts on deposit with a trustee or other fiduciary in escrow specifically therefor;

(J) Credit Provider Reimbursement Obligations and potential Credit Provider Reimbursement Obligations shall be ignored; and

(K) Payments and potential payments under Payment Agreements may, at the option of the City, be ignored except as provided in clause (B) of this definition.

#### Parity Obligations

“Parity Obligations” means the 2018 Installment Payments and any other obligation (including, but not limited to, any installment payment obligation) payable on a parity with the 2018 Installment Payments from Available Revenues or Net System Revenues, as the case may be, as provided in Article IV and the regularly scheduled payments under any Payment Agreement which have been designated by the City as a “Parity Obligation” in the Payment Agreement.

#### Payment Agreement

“Payment Agreement” means a written agreement for the purpose of managing or reducing the City’s exposure to fluctuations in interest rates or for any other interest rate, investment, asset or liability managing purposes, entered into either on a current or forward basis by the City as authorized under any applicable laws of the State in connection with, or incidental to, the entering into of any Parity Obligation, that provides for an exchange of payments based on interest rates, ceilings or floors on such payments, options on such payments or any combination thereof, or any similar device.

#### Payment Agreement Payments

“Payment Agreement Payments” means the regularly scheduled amounts (excluding Termination Payments) periodically required to be paid by the City under all Payment Agreements.

#### Payment Agreement Receipts

“Payment Agreement Receipts” means the regularly scheduled amounts (excluding Termination Payments) required to be paid by all counterparties to the City under all Payment Agreements.

Principal Corporate Trust Office

“Principal Corporate Trust Office” means the corporate trust office of the 2018 Trustee in San Francisco, California or such other office designated by the 2018 Trustee from time to time.

Prior Water Projects

“Prior Water Projects” means, collectively, the 2002 Water Project, the 2005 Water Project and the 2009 Water Project.

Rating Agencies

“Rating Agencies” means, collectively, Fitch and S&P, together with any other nationally recognized municipal securities rating agency or agencies selected by the Authority that is then rating any Parity Obligations at the request of the Authority.

Refunding Price

“Refunding Price” means the principal amount owed by the City to the Authority for the refunding of the installment payments due under the 2002 Installment Purchase Agreement, the 2005 Installment Purchase Agreement and the 2009 Installment Purchase Contract under the terms hereof as provided in Section 3.01.

Senior Obligations

“Senior Obligations” means the 2010 Installment Purchase Contract.

S&P

“S&P” means S&P Global, a corporation duly organized and existing under and by virtue of the laws of the State of New York, and its successors and assigns, but only to the extent that such entity is then rating any Parity Obligations at the request of the Authority.

State

“State” means the State of California.

System Revenues

“System Revenues” means all gross income and revenue received or receivable by the City from the ownership or operation of the Water System, determined in accordance with Generally Accepted Accounting Principles, including all fees, rates, charges and amounts paid under any contracts received by or owed to the City in connection with the operation of the Water System and all proceeds of insurance relating to the Water System and all other income and revenue howsoever derived by the City from the ownership or operation of the Water System. Notwithstanding the foregoing, there shall be deducted from current System Revenues any amounts transferred into the Rate Stabilization Fund from current System Revenues as



provided in Section 5.13 hereof and there shall be added to current System Revenues any amounts transferred out of the Rate Stabilization Fund as provided in Section 5.13 hereof.

Termination Payments

“Termination Payments” means any payments due and payable by the City in connection with the termination of a Payment Agreement.

Variable Interest Rate

“Variable Interest Rate” means any variable interest rate or rates to be paid under any Parity Obligation, the method of computing which variable interest rate shall be as specified in such obligation, which obligation shall also specify either (i) the payment period or periods or time or manner of determining such period or periods or time for which each value of such variable interest rate shall remain in effect, and (ii) the time or times based upon which any change in such variable interest rate shall become effective, and which variable interest rate may, without limitation, be based on the interest rate on certain bonds or may be based on interest rate, currency, commodity or other indices.

Variable Interest Rate Obligations

“Variable Interest Rate Obligations” means, for any period of time, any Parity Obligations that bear a Variable Interest Rate during such period.

Water Project

“Water Project” means any additions, betterments, extensions or improvements to the Water System designated by the City Council of the City as a designated Water Project for the City.

Water Service

“Water Service” means the water services made available or provided by the Water System.

Water System

“Water System” means the whole and each and every part of the water system of the City including the portion thereof existing on the date of this 2018 Contract and including all additions, betterments, extensions and improvements to such system or any part thereof and hereafter acquired or constructed.

## ARTICLE II

REFUNDING THE INSTALLMENT PAYMENTS DUE FOR THE PRIOR WATER PROJECTS

SECTION 2.01. Refunding of the Installment Payments for the Prior Water Projects. The Authority agrees to refund the installment payments due by the City for the purchase of the Prior Water Projects. In order to implement this provision, the Authority agrees to deliver to the 2002 Trustee the sum of \$[\_\_\_\_\_] from the proceeds of the 2018 Bonds, and the City agrees to use such amounts [(together with funds on deposit relating to the 2002 Water Project in the amount of \$[\_\_\_\_\_])] to prepay the installment payments payable by the City for the 2002 Water Project. The Authority agrees to deliver to the 2005 Trustee the sum of \$[\_\_\_\_\_] from the proceeds of the 2018 Bonds, and the City agrees to use such amounts [(together with funds on deposit relating to the 2005 Water Project in the amount of \$[\_\_\_\_\_])] to prepay the installment payments payable by the City for the 2005 Water Project. The Authority agrees to deliver to the 2009 Trustee the sum of \$[\_\_\_\_\_] from the proceeds of the 2018 Bonds, and the City agrees to use such amounts [(together with funds on deposit relating to the 2009 Water Project in the amount of \$[\_\_\_\_\_])] to prepay the installment payments payable by the City for the 2009 Water Project.

In the event the Authority fails to observe or perform any agreement, condition, covenant or term contained herein required to be observed or performed by it, the City may institute such action or proceeding against the Authority as the City may deem necessary or convenient to compel the observance or performance of such agreement, condition, covenant or term, or to recover damages for the nonobservance or nonperformance thereof. The City may, at its own cost and expense and in its own name or in the name of the Authority, prosecute or defend any action or proceeding or take any other action involving third persons which the City deems reasonably necessary in order to protect or secure its rights hereunder, and in such event the Authority agrees to cooperate fully with the City and to take all action necessary to effect the substitution of the City for the Authority in any action or proceeding if the City shall so request.

## ARTICLE III

2018 INSTALLMENT PAYMENTSSECTION 3.01. Refunding Price.

(a) The Refunding Price to be paid by the City hereunder to the Authority for the refunding of the aggregate installment payments payable by the City under the 2002 Installment Purchase Agreement, the 2005 Installment Purchase Agreement and the 2009 Installment Purchase Contract is \$[PAR IN WORDS] dollars (\$[PAR]), payable in installments of principal together with interest on the unpaid principal balance thereof, all as provided in Section 3.01(b) (subject in each case to any right of prepayment provided herein), plus the 2018 Reserve Account deposits required pursuant to Section 4.02, which may be credited to the 2018 Installment Payments as provided herein.

(b) The interest on the unpaid balance of the principal amount of the City's obligations hereunder constituting the 2018 Installment Payments shall accrue from [November \_\_], 2018, at the following annual rates of interest per annum, and shall be paid by the City as and constitute interest paid on the principal amount of the City's obligations hereunder constituting the 2018 Installment Payments, namely:

Installment Payment Date (October 1)	Principal Installment	Interest Rate
	\$	%

SECTION 3.02. Payment of the 2018 Installment Payments. The City shall, subject to any right of prepayment as provided herein, pay the Authority the 2018 Installment Payments as herein provided, without offset or deduction of any kind, by paying the principal components of the 2018 Installment Payments annually in the amounts and on or before the date that is at least two (2) business days prior to October 1 in each of the years in accordance with Exhibit A attached hereto and incorporated herein and made a part hereof, together with the interest components of the 2018 Installment Payments, which interest components shall be paid semiannually on or before the date that is at least two (2) business days prior to each April 1 and October 1, commencing [April 1, 2019] (each a "2018 Installment Payment Date"), in the amounts set forth in Exhibit A attached hereto and incorporated herein and made a part hereof; provided, that in the event the City fails to make any 2018 Installment Payment when due, the defaulted 2018 Installment Payment shall continue as an obligation of the City, and the City shall pay the same with interest thereon from the due date thereof at the rate of interest applicable thereto.

The obligation of the City to pay the 2018 Installment Payments from the Available Revenues as herein provided is absolute and unconditional, and until such time as the 2018 Installment Payments shall have been fully paid (or provision for the payment thereof shall have been made pursuant to Section 7.01), the City will not discontinue or suspend any 2018 Installment Payments required to be made by it under this section, whether or not the Water System, or any part thereof is operating or operable or has been completed, or its use is suspended, interfered with, reduced or curtailed or terminated in whole or in part, and such payments shall not be subject to abatement because of any damage to, destruction or condemnation of the Water System, and such payments shall not be subject to reduction whether by offset or otherwise and shall not be conditioned upon the performance or nonperformance by any party of any agreement for any cause whatsoever.

SECTION 3.03. Prepayment of the 2018 Installment Payments. The City may prepay the principal components of the 2018 Installment Payments at the same times, in the same amounts and upon the same terms and conditions as 2018 Bonds (as defined in the 2018 Indenture) may be redeemed pursuant to the 2018 Indenture.

Notwithstanding any such prepayment, the City shall not be relieved of its obligations hereunder until all 2018 Installment Payments shall have been fully paid (or provision for the payment thereof shall have been made pursuant to Section 7.01).

## ARTICLE IV

### REVENUES

SECTION 4.01. Pledge of Net System Revenues; Springing Pledge of Revenues; City Revenue Fund.

(a) All Net System Revenues are hereby irrevocably pledged to the payment of the 2018 Installment Payments and all other Parity Obligations as provided herein, and the Net System Revenues shall not be used for any other purpose while any 2018 Installment Payments remain unpaid; provided, that out of the Net System Revenues there may be apportioned such sums for such purposes as are expressly permitted by this article. This pledge, together with any other pledge of the Net System Revenues created for Parity Obligations, shall constitute an exclusive lien on the Net System Revenues for the payment of the 2018 Installment Payments and all other Parity Obligations in accordance with the terms hereof, subordinate and junior in priority only to the lien thereon granted as security for the Senior Obligations.

(b) If the Senior Obligations shall hereafter be deemed to be paid and no longer outstanding pursuant to their terms and if the lien on Net System Revenues created as security therefore shall be terminated and discharged, immediately upon such termination and discharge and automatically without any further act, all Net System Revenues shall be irrevocably pledged to the payment of Parity Obligations, and the Net System Revenues shall not be used for any purpose while any 2018 Installment Payments remain unpaid; provided, that out of Net System Revenues there may be apportioned such sums for such purposes as are expressly permitted by this article. Upon the effectiveness of such pledge, such pledge, together with any other pledge of the Net System Revenues created for Parity Obligations, shall constitute a first and exclusive lien on Net System Revenues for the payment of the 2018 Installment Payments and Parity Obligations in accordance with the terms hereof.

(c) All System Revenues shall be deposited as and when received in the City Revenue Fund which fund is hereby continued in the treasury of the City and which fund shall be maintained by the City, and all money in the City Revenue Fund shall be set aside by the City and applied to the payment of Operation and Maintenance Costs, as and when required to be paid.

(d) The City hereby covenants (for so long as the Senior Obligations remain outstanding pursuant to their terms) to apply Net System Revenues to payments, transfers and

other deposits required by the terms of the Senior Obligations at the times and in the amounts required by the Senior Obligations.

(e) This paragraph shall apply until such time as the Senior Obligations shall be deemed to be paid and no longer outstanding pursuant to their terms, at which time this paragraph shall have no continuing force or effect. The City hereby covenants to cause all Available Revenues to be set aside in a separate account in the City Revenue Fund, to be known as the “Available Revenue Account,” which account is hereby established, and shall cause such Available Revenues to be allocated and applied as provided in Section 4.02(a); provided, that pending the use by the City of the Available Revenues for such purposes, such money may be invested by the City in Permitted Investments.

(f) This paragraph shall apply from and after such time as the Senior Obligations shall be deemed to be paid and no longer outstanding pursuant to their terms, prior to which time this paragraph shall have no force or effect. The City hereby covenants to cause all Net System Revenues to be allocated and applied as provided in Section 4.02(b); provided, that pending the use by the City of the Net System Revenues for such purposes, such money may be invested by the City in Permitted Investments.

#### SECTION 4.02. Allocation of Net System Revenues and Available Revenues.

(a) This subsection (a) shall apply until such time as the Senior Obligations shall be deemed to be paid and no longer outstanding pursuant to their terms, at which time this subsection (a) shall have no continuing force or effect. All Available Revenues in the Available Revenue Account shall be set aside by the City at the following times and deposited in the following account or fund in the following order of priority:

(1) 2018 Installment Payment Fund Deposits. On or before each 2018 Installment Payment Date, the City shall, from Available Revenues, transfer to the 2018 Trustee (on a parity with any required transfers of Available Revenues for the payment of all other Parity Obligations) for deposit in the 2018 Installment Payment Fund a sum equal to the amount of the interest components becoming due hereunder on such 2018 Installment Payment Date and a sum equal to the amount of the principal components, if any, becoming due hereunder on such 2018 Installment Payment Date;

(2) Reserve Account Deposits. On each date required by the 2018 Indenture, after making the transfers and deposits required by paragraph (1) for 2018 Installment Payments and payments on Parity Obligations currently due and payable, the City shall, from Available Revenues, transfer to the 2018 Trustee (on a parity with any required transfers of Available Revenues for the replenishment of all other reserve accounts for all Parity Obligations) for deposit in the 2018 Reserve Account a sum equal to the amount, if any, required by the terms of the 2018 Indenture, to be necessary to restore the 2018 Reserve Account to the 2018 Reserve Requirement on such date; and

(3) Surplus Available Revenues. On any date, provided that (a) all transfers and deposits required by paragraph (1) for 2018 Installment Payments and

payments on Parity Obligations currently due and payable have been made and (b) all transfers required to be made on such date by paragraph (2) have been made, Available Revenues may be used for any lawful purpose, including, but not limited to the payment of any obligations secured by Net System Revenues on a priority subordinate to the Parity Obligations or the payment of any Termination Payment;

provided, that no such transfers to and deposits in the 2018 Installment Payment Fund need be made if the amount available and contained therein is at least equal to the interest component becoming due hereunder on such 2018 Installment Payment Date, plus the principal component, if any, becoming due hereunder on such 2018 Installment Payment Date and if the 2018 Indenture does not require a replenishment of the amounts contained in the 2018 Reserve Account; and provided further, that nothing in this section shall be construed to limit the City's ability to make other transfers and deposits at any time from Available Revenues for the payment of debt service, reserve replenishment, credit enhancement reimbursement costs and Payment Agreement Payments to the extent required with respect to additional Parity Obligations incurred in accordance with Section 4.03.

(b) This subsection (b) shall apply from and after such time as the Senior Obligations shall be deemed to be paid and no longer outstanding pursuant to their terms, prior to which time this subsection (b) shall have no force or effect. All Net System Revenues shall be set aside by the City at the following times and deposited in the following account or fund in the following order of priority:

(1) 2018 Installment Payment Fund Deposits. On or before each 2018 Installment Payment Date, the City shall, from Net System Revenues, transfer to the 2018 Trustee (on a parity with any required transfers of Net System Revenues for the payment of all other Parity Obligations) for deposit in the 2018 Installment Payment Fund a sum equal to the amount of the interest components becoming due hereunder on such 2018 Installment Payment Date and a sum equal to the amount of the principal components, if any, becoming due hereunder on such 2018 Installment Payment Date;

(2) Reserve Account Deposits. On each date required by the 2018 Indenture, after making the transfers and deposits required by paragraph (1) for 2018 Installment Payments and payments on Parity Obligations currently due and payable, the City shall, from Net System Revenues, transfer to the 2018 Trustee (on a parity with any required transfers of Net System Revenues for the replenishment of all other reserve accounts for all Parity Obligations) for deposit in the 2018 Reserve Account a sum equal to the amount, if any, required by the terms of the 2018 Indenture, to be necessary to restore the 2018 Reserve Account to the 2018 Reserve Requirement on such date; and

(3) Surplus Net System Revenues. On any date, provided that (a) all transfers and deposits required by paragraph (1) for 2018 Installment Payments and payments on Parity Obligations currently due and payable have been made and (b) all transfers required to be made on such date by paragraph (2) have been made, Net System Revenues may be used for any lawful purpose, including, but not limited to the payment of any obligations secured by Net System Revenues on a priority subordinate to the Parity Obligations or the payment of any Termination Payment;

provided, that no such transfers to and deposits in the 2018 Installment Payment Fund need be made if the amount available and contained therein is at least equal to the interest component becoming due hereunder on such 2018 Installment Payment Date, plus the principal component, if any, becoming due hereunder on such 2018 Installment Payment Date and if the 2018 Indenture does not require a replenishment of the amounts contained in the 2018 Reserve Account; and provided further, that nothing in this section shall be construed to limit the City's ability to make other transfers and deposits at any time from Net System Revenues for the payment of debt service, reserve replenishment, credit enhancement reimbursement costs and Payment Agreement Payments to the extent required with respect to additional Parity Obligations incurred in accordance with Section 4.03.

#### SECTION 4.03. Additional Obligations.

(a) The City will not incur any obligations payable from Net System Revenues superior to the payment of the 2018 Installment Payments, including, but not limited to, any obligations permitted to be incurred by the terms of the Senior Obligations.

(b) Without regard to Section 4.03(c), the City may at any time enter into or create an obligation or commitment which is a Credit Provider Reimbursement Obligation or a Payment Agreement.

(c) The City may at any time and from time to time issue or create any other Parity Obligations (in addition to the 2018 Installment Payments, which may be incurred without compliance with this Section 4.03), provided:

(1) There shall not have occurred and be continuing (i) an Event of Default under the terms of this 2018 Contract or any Issuing Document or (ii) an Event of Default or Termination Event (as defined in any Payment Agreement) under any Payment Agreement; and

(2) The City obtains or provides a certificate or certificates, prepared by the City or at the City's option by a Consultant, showing that either:

(A) the Adjusted Available Revenues for either the most recent Fiscal Year for which audited financial statements are available or any 12 consecutive calendar month period during the 18 consecutive calendar month period ending immediately prior to the incurring of such additional Parity Obligations were at least sufficient to satisfy the Coverage Requirement for each of the next five full Fiscal Years following the incurring of such additional Parity Obligations or each of the next three full Fiscal Years following the incurring of such additional Parity Obligations during which no interest is capitalized, whichever is later, including the Parity Debt Service during such Fiscal Years on such additional Parity Obligations; and for the purpose of providing such certificate or certificates, the City or the City's Consultant, as applicable, may adjust the Adjusted Available Revenues for such Fiscal Year or 12 calendar month period, as the case may be, to reflect:

(i) an allowance for Net System Revenues that would have been derived from each new connection to the Water System that was made prior to the incurrence of such additional Parity Obligations but which was not in existence, during all or any part of such Fiscal Year or 12 calendar month period under consideration, in an amount equal to the estimated additional Net System Revenues that would have been derived from each such connection if it had been made prior to the beginning of such Fiscal Year or 12 calendar month period, and

(ii) an allowance for Net System Revenues that would have been derived from any increase in the rates, fees and charges fixed and prescribed for Water Service which became effective prior to the incurrence of such additional Parity Obligations but which was not in effect, during all or any part of such Fiscal Year or 12 calendar month period, in an amount equal to the estimated additional Net System Revenues that would have been derived from such increase in rates, fees and charges if it had been in effect prior to the beginning of such Fiscal Year or 12 calendar month period; or

(B) the estimated Adjusted Available Revenues for each of the five full Fiscal Years next following the earlier of (i) the end of the period during which interest on such additional Parity Obligations is to be capitalized or, if no interest is capitalized, the Fiscal Year in which such additional Parity Obligations are incurred, or (ii) the date on which substantially all Water Projects financed with such additional Parity Obligations plus all Water Projects financed with all existing Parity Obligations are expected to commence operations, will be at least sufficient to satisfy the Coverage Requirement for such period; and for the purpose of providing such certificate or certificates, the City or the City's Consultant, as applicable, may adjust the foregoing estimated Adjusted Available Revenues to reflect:

(i) an allowance for Net System Revenues that are estimated to be derived from any increase in the rates, fees and charges for Water Service which have been adopted by the City and which will be in effect during all or any portion of the period for which such estimates are provided; and

(ii) an allowance for Net System Revenues that are estimated to be derived from new customers of the Water System anticipated to be served by any additions or improvements to or extensions of the Water System reasonably expected to become available during such five year period in an amount equal to the additional Net System Revenues that are estimated to be derived from such customers.

For purposes of clause (B) above, with respect to Operation and Maintenance Costs, the City or the City's Consultant, as applicable, shall use such assumptions (which shall be set forth in such certificate or certificates) as such believes to be reasonable, taking into



account: (i) historical Operation and Maintenance Costs, (ii) Operation and Maintenance Costs associated with the additions or improvements to or extensions of the Water System to be financed with the proceeds of such additional Parity Obligations and any other new additions or improvements to or extensions of the Water System during such five year period and (iii) such other factors, including inflation and changing operations or policies of the City, as the City or the City's Consultant, as applicable, believes to be appropriate.

The certificate or certificates described above in subsection (c)(2) shall not be required if the Parity Obligations being issued are for the purpose of refunding (x) then outstanding Parity Obligations, if at the time of the issuance of such refunding Parity Obligations a certificate of the City shall be delivered showing that Parity Debt Service in each Fiscal Year on all Parity Obligations outstanding after the issuance of the refunding Parity Obligations will not exceed 110% of Parity Debt Service in each corresponding Fiscal Year on all Parity Obligations outstanding prior to the issuance of such refunding Parity Obligations; or (y) then outstanding Balloon Obligations or Variable Interest Rate Obligations, but only to the extent that the principal amount of such Balloon Obligations or Variable Interest Rate Obligations has been put, tendered to or otherwise purchased by a standby purchase or other liquidity facility relating to such indebtedness.

(d) Without regard to Section 4.03(c), the City may issue or incur obligations secured by Net System Revenues on a priority subordinate to the Parity Obligations and such obligations may be paid only in accordance with the provisions of Section 4.02 as long as (i) no Event of Default has occurred and is continuing (unless such Event of Default will not be continuing after the incurrence of such subordinate obligations) and (ii) no Event of Default or Termination Event (as defined in any Payment Agreement) under any Payment Agreement has occurred and is continuing (unless such Event of Default or Termination Event will not be continuing after the incurrence of such subordinate obligations).

## ARTICLE V

### COVENANTS OF THE CITY

#### SECTION 5.01. Compliance with and Amendment of 2018 Contract.

(a) The City will punctually pay the 2018 Installment Payments in strict conformity with the terms hereof, and will faithfully observe and perform all the agreements, conditions, covenants and terms contained herein required to be observed and performed by it, and will not terminate the 2018 Contract for any cause whatsoever, including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, destruction of or damage to the Water System, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of California or any political subdivision of either or any failure of the Authority to observe or perform any agreement, condition, covenant or term contained herein required to be observed and performed by it, whether express or implied. The City will, so long as any 2018 Installment Payments remain unpaid, apply Net System Revenues and Available Revenues as provided herein.

(b) The City and the Authority shall not supplement, amend, modify or terminate any of the terms of the 2018 Contract, or consent to any such supplement, amendment, modification or termination, without the prior written consent of the 2018 Trustee, which such consent shall be given only if (a) such supplement, amendment, modification or termination will not materially adversely affect the interests of the 2018 Bonds or result in any material impairment of the security hereby given for the payment of the 2018 Installment Payments, or (b) the 2018 Trustee first obtains the written consent of the Holders of a majority in aggregate principal amount of the 2018 Bonds then Outstanding to such supplement, amendment, modification or termination; provided, that no such supplement, amendment, modification or termination shall reduce the amount of 2018 Installment Payments to be made to the Authority or the 2018 Trustee by the City pursuant to the 2018 Contract, or extend the time for making such 2018 Installment Payments, or permit the creation of any lien prior to the lien created by the 2018 Contract on Net System Revenues without the written consent of all of the Holders of all 2018 Bonds then Outstanding.

SECTION 5.02. Against Encumbrances. The City will not make any use of or encumber the Net System Revenues or Available Revenues except as provided herein; provided, that so long as the City is not in default hereunder, the City may issue any obligations subordinate to the Parity Obligations that are payable from surplus Available Revenues as provided in paragraph (a)(3) of Section 4.02, or from surplus Net System Revenues as provided in paragraph (b)(3) of Section 4.02.

SECTION 5.03. Against Sale or Other Disposition of Property. The City will not sell, lease or otherwise dispose of the Water System or any part thereof essential to the proper operation of the Water System or to the maintenance of Net System Revenues. The City will not enter into any agreement which impairs the operation of the Water System or any part thereof necessary to secure adequate Net System Revenues for the payment of Parity Obligations or which would otherwise impair the rights of the City with respect to Net System Revenues or the operation of the Water System.

SECTION 5.04. Against Competitive Facilities. The City will not, to the extent permitted by law, acquire, purchase, maintain or operate and will not, to the extent permitted by law and within the scope of its powers, permit any other public or private agency, corporation, district or political subdivision or any person whomsoever to acquire, purchase, maintain or operate within the City any water system competitive with the Water System.

SECTION 5.05. Tax Covenants. The City will at all times do and perform all acts and things permitted by law which are necessary or desirable in order to assure that the interest components of the 2018 Installment Payments will not be included in the gross income of the owners of the 2018 Bonds (as defined in the 2018 Indenture) for federal income tax purposes under the Code and will be exempt from State of California personal income taxes, and will take no action that would result in such interest being so included or not being so exempt. Without limiting the foregoing, the City and the Authority will at all times comply with the requirements of the Tax Certificate executed in connection with the delivery of the 2018 Bonds. This covenant shall survive any defeasance or discharge of the 2018 Installment Payments pursuant to Article VII or any prepayment of principal components of the 2018 Installment Payments pursuant to Article III.

SECTION 5.06. Maintenance and Operation of the Water System. The City will maintain and preserve the Water System in good repair and working order at all times and will operate the Water System in an efficient and economical manner and will pay all Operation and Maintenance Costs as they become due and payable.

SECTION 5.07. Payment of Claims. The City will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien on Net System Revenues or any part thereof or on any funds in the hands of the City or which might impair the security of the 2018 Installment Payments.

SECTION 5.08. Compliance with Contracts. The City will comply with, keep, observe and perform all agreements, conditions, covenants and terms, express or implied, required to be kept, observed and performed by it contained in all contracts for the use of the Water System and all other contracts affecting or involving the Water System to the extent that the City is a party thereto.

SECTION 5.09. Insurance. The City will procure and maintain such insurance relating to the Water System which it shall deem advisable or necessary to protect its interests and the interests of the Authority and the 2018 Trustee, which insurance shall afford protection in such amounts and against such risks as are usually covered in the State in connection with municipal water systems comparable to the Water System; provided, that any such insurance may be maintained under a self-insurance program so long as such self-insurance is maintained in the amounts and manner usually maintained in connection with municipal water systems in the State comparable to the Water System and is, in the opinion of an accredited actuary, actuarially sound. All policies of insurance required to be maintained herein shall provide that the Authority and the 2018 Trustee shall be given thirty (30) days' written notice of any intended cancellation thereof or reduction of coverage provided thereby.

SECTION 5.10. Accounting Records; Financial Statements and Other Reports.

(a) The City will keep appropriate accounting records in which complete and correct entries shall be made of all transactions relating to the Water System and the Net System Revenues, the Operation and Maintenance Costs and the Available Revenues relating thereto, which records shall be available for inspection by the Authority and the 2018 Trustee at reasonable hours and under reasonable conditions.

(b) The City will prepare annually within two hundred seventy (270) days after the close of each Fiscal Year (commencing with the Fiscal Year ending June 30, 2019) financial statements of the City for the preceding Fiscal Year prepared in accordance with generally accepted accounting principles, together with an Accountant's Report thereon, which records shall be available for inspection by the Authority and the 2018 Trustee at reasonable hours and under reasonable conditions.

SECTION 5.11. Protection of Security and Rights of Authority. The City will preserve and protect the security hereof and the rights of the Authority to the 2018 Installment Payments hereunder and will warrant and defend such rights against all claims and demands of all persons.

SECTION 5.12. Payment of Taxes and Compliance with Governmental Regulations. The City will pay and discharge all taxes, assessments and other governmental charges which may hereafter be lawfully imposed upon the Water System or any part thereof or upon Net System Revenues when the same shall become due. The City will duly observe and comply with all valid regulations and requirements of any governmental authority relative to the operation of the Water System or any part thereof, but the City shall not be required to comply with any regulations or requirements so long as the validity or application thereof shall be contested in good faith.

SECTION 5.13. Amount of Charges, Fees and Rates; Rate Stabilization Fund. The City will fix, prescribe and collect rates, fees and charges for the Water Service during each Fiscal Year which are estimated to yield Available Revenues for such Fiscal Year equal to at least the Coverage Requirement for such Fiscal Year. The City may make adjustments from time to time in such fees and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates, fees and charges then in effect unless the Available Revenues from such reduced rates, fees and charges are estimated to be sufficient to meet the requirements of this section.

The City has previously established a fund denominated the Rate Stabilization Fund. From time to time the City may deposit into the Rate Stabilization Fund, from current System Revenues, such amounts as the City shall determine and the amount of available current System Revenues shall be reduced by the amount so transferred. The City may also deposit amounts in the Rate Stabilization Fund from any other lawfully available source other than current System Revenues and the amount of available current System Revenues shall not be reduced by the amounts so transferred. Amounts may be transferred from the Rate Stabilization Fund and deposited in the City Revenue Fund, and any amounts so transferred within 270 days after the end of a Fiscal Year shall be deemed System Revenues for such Fiscal Year when so transferred. The City may also apply moneys on deposit in the Rate Stabilization Fund for any lawful purpose. All interest or other earnings upon amounts in the Rate Stabilization Fund may be withdrawn therefrom and accounted for as System Revenues in accordance with the terms of this Section or used for any lawful purpose.

SECTION 5.14. Eminent Domain and Insurance Proceeds. If all or any part of the Water System shall be taken by eminent domain proceedings, or if the City receives any insurance proceeds resulting from a casualty loss to the Water System, the net proceeds thereof, at the option of the City, shall be applied either to (a) the prepayment of the Senior Obligations, then to the extent of any remaining proceeds, the prepayment of Parity Obligations, or (b) to acquire and construct additions, betterments or improvements to the Water System to replace the condemned or destroyed portion of the Water System.

SECTION 5.15. Continuing Disclosure. The City hereby agrees to comply with and carry out all of the provisions of the continuing disclosure undertaking relating to the

2018 Bonds. Notwithstanding any other provision of this 2018 Contract, failure of the City to comply with such undertaking shall not be considered an Event of Default under the 2018 Contract or the 2018 Indenture; provided, that the 2018 Trustee may (and, at the request of any Participating Underwriter or the Holders of at least twenty-five per cent (25%) in aggregate principal amount of Outstanding 2018 Bonds, shall) or any Holder or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this section. Capitalized terms used in this section but not defined in this 2018 Contract shall have the meanings given in the aforesaid continuing disclosure undertaking.

SECTION 5.16. Further Assurances. The City will adopt, deliver, execute and make any and all further assurances, instruments and resolutions as may be reasonably necessary or proper to carry out the intention or to facilitate the performance hereof and for the better assuring and confirming unto the Authority of the rights and benefits provided to it herein.

## ARTICLE VI

### EVENTS OF DEFAULT AND REMEDIES OF THE AUTHORITY

SECTION 6.01. Events of Default. If one or more of the following Events of Default shall happen, that is to say --

(a) if default shall be made in the due and punctual payment of any 2018 Installment Payment when the same shall become due and payable;

(b) if default shall be made by the City in the performance of any of the other agreements or covenants contained herein required to be performed by it, and such default shall have continued for a period of thirty (30) days after the City shall have been given notice in writing of such default by the Authority or the 2018 Trustee;

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

(d) if an event of default (as defined in any Parity Obligation or Issuing Document) shall have occurred; or

(e) if an event of default (as defined in the Senior Obligations) shall have occurred;

then and in each and every such case during the continuance of such Event of Default the Authority may, by notice in writing to the City, declare the entire principal amount of the unpaid 2018 Installment Payments and the accrued interest thereon to be due and payable immediately,

and upon any such declaration the same shall become immediately due and payable, anything contained herein to the contrary notwithstanding; provided, that if at any time after the entire principal amount of the unpaid 2018 Installment Payments and the accrued interest thereon shall have been so declared due and payable and before any judgment or decree for the payment of the money thereby due shall have been obtained or entered the City shall deposit with the Authority a sum sufficient to pay the unpaid principal amount of the 2018 Installment Payments due prior to such declaration and the accrued interest thereon, and the reasonable expenses of the Authority, and any and all other defaults known to the Authority (other than in the payment of the entire principal amount of the unpaid 2018 Installment Payments and the accrued interest thereon due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Authority or provision deemed by the Authority to be adequate shall have been made therefor then and in every case the Authority, by written notice to the City, may rescind and annul such declaration and its consequences, except that no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon.

SECTION 6.02. Distribution of Assets. Upon the date of the declaration of an Event of Default by the Authority as provided in Section 6.01, all Available Revenues shall be applied in the following order –

(1) First, to the payment of the costs and expenses of the 2018 Trustee (as assignee of the Authority), if any, in carrying out the provisions of this article, including reasonable compensation to its agents, accountants and counsel and including any expenses of the Authority in indemnifying the 2018 Trustee and to the payment of the costs and expenses of any trustee or other fiduciary, if any, for or in respect of any other Parity Obligations in carrying out the provisions of such Parity Obligations or any related Issuing Document relating to a default with respect to such Parity Obligations, including reasonable compensation to its agents, accountants and counsel and including any expenses of the Authority or the City in indemnifying such trustee or other fiduciary and, if the Available Revenues shall not be sufficient to pay all such costs, expenses and other amounts then due and payable, then to the payment thereof ratably, according to the amounts then due;

(2) Second, to the payment of principal of and interest on and other regularly scheduled payments on Parity Obligations (except Termination Payments), as follows:

(A) Unless all principal of and interest on and other regularly scheduled payments on all Parity Obligations have become due or been declared due and payable,

First: to the payment to the persons entitled thereto of all installments of interest or other regularly scheduled payments (other than principal or Termination Payments) then due and payable on Parity Obligations and, if the amount available shall not be sufficient to pay in full all such interest and regularly scheduled payments then due and payable, then to the payment thereof

ratably, according to the amounts due thereon without any discrimination or preference; and

Second: to the payment of the unpaid principal amount of the Parity Obligations then due and payable with interest on the overdue principal of the unpaid Parity Obligations at the rate or rates of interest then applicable to such Parity Obligations if paid in accordance with their terms, and, if the amount available shall not be sufficient to pay in full all the amounts due with respect to the Parity Obligations on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal and interest due on such date, without any discrimination or preference;

(B) If the principal of and interest on and other regularly scheduled payments on all Parity Obligations have become due or been declared due and payable, to the payment of the whole amount then owing and unpaid upon all Parity Obligations for interest and principal and other regularly scheduled payments (except Termination Payments) with interest on the overdue principal of the unpaid Parity Obligations at the rate or rates of interest then applicable to such Parity Obligations if paid in accordance with their terms, and, if the amount available shall not be sufficient to pay in full the whole amount then owing and unpaid upon all Parity Obligations for interest and principal and other regularly scheduled payments (except Termination Payments), then to the payment of such interest, principal, interest on overdue principal and other regularly scheduled payments without preference or priority among such interest, principal, interest on overdue principal or other regularly scheduled payments ratably to the aggregate of such interest, principal, interest on overdue principal and other regularly scheduled payments.

(3) Third, to the required replenishment of any debt service reserves with respect to the Parity Obligations (including reimbursement or payment of any provider of a credit facility for any such debt service reserve);

(4) Fourth, to the payment of any other amounts becoming due and payable with respect to Parity Obligations (including any letter of credit and remarketing fees); and

(5) Fifth, to the payment of the costs and expenses of the Authority, if any, in carrying out the provisions of this article, including reasonable compensation to its agents, accountants and counsel, that were not paid pursuant to clause (1) above;

(6) Sixth, to the payment of all other amounts due and payable by the City from Net System Revenues, including, but not limited to the payment of obligations secured by Net System Revenues on a priority subordinate to the Parity Obligations, and to the payment of any Termination Payments on any Payment Agreements.

SECTION 6.03. Other Remedies of the Authority. The Authority shall have the right --

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

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

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

SECTION 6.04. Non-Waiver. Nothing in this article or in any other provision hereof shall affect or impair the obligation of the City, which is absolute and unconditional, to pay the 2018 Installment Payments to the Authority at their respective due dates or upon prepayment as provided herein from the Available Revenues, or shall affect or impair the right of the Authority, which is also absolute and unconditional, to institute suit to enforce such payment by virtue of the contract embodied herein.

A waiver of any default or breach of duty or contract by the Authority shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract, and no delay or omission by the Authority to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Authority by applicable law or by this article may be enforced and exercised from time to time and as often as shall be deemed expedient by the Authority.

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

SECTION 6.05. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Authority is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by applicable law.



## ARTICLE VII

DISCHARGE OF OBLIGATIONSSECTION 7.01. Discharge of Obligations.

(a) If the City shall pay or cause to be paid all the 2018 Installment Payments at the times and in the manner provided herein, the right, title and interest of the Authority herein and the obligations of the City hereunder shall thereupon cease, terminate, become void and be completely discharged and satisfied, except as provided in Section 5.05.

(b) Any unpaid component of any 2018 Installment Payment shall on its scheduled payment date or date of prepayment be deemed to have been paid within the meaning of and with the effect expressed in subsection (a) of this section if the City makes payment of such component of such 2018 Installment Payment and prepayment premium, if applicable, thereon in the manner provided herein, and money for the purpose of such payment or prepayment is then held by the 2018 Trustee.

(c) All or any portion of any unpaid component of any 2018 Installment Payment shall, on or prior to its scheduled payment date or date of prepayment, be deemed to have been paid within the meaning of and with the effect expressed in subsection (a) of this section (except that the City shall remain liable for the payment of any such component of such 2018 Installment Payment, but only out of the money or securities deposited with the 2018 Trustee pursuant to the 2018 Indenture) to the extent that the corresponding liability of the Authority in respect of 2018 Bonds shall have ceased, terminated and been completely discharged as provided in Section 8.02 of the 2018 Indenture.

## ARTICLE VIII

MISCELLANEOUS

SECTION 8.01. Liability of City Limited to Available Revenues. Notwithstanding anything contained herein, the City shall not be required to advance any money derived from any source of income other than the Available Revenues and the other funds provided herein for the payment of the 2018 Installment Payments or for the performance of any agreements or covenants required to be performed by it contained herein; provided, that the City may advance money for any such purpose so long as such money is derived from a source legally available for such purpose and may be legally used by the City for such purpose.

The obligation of the City to make the 2018 Installment Payments is a special obligation of the City and is payable solely from the Available Revenues and the other funds as provided herein, and does not constitute a debt of the City or the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction, and does not constitute an obligation for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation.

SECTION 8.02. Benefits of Contract Limited to Parties and Beneficiary. Except as provided in Sections 8.03 and 8.04, nothing contained herein, expressed or implied, is

intended to give to any person other than the City, the Authority and their assigns any right, remedy or claim under or pursuant hereto, and any agreement or covenant required herein to be performed by or on behalf of the City or the Authority shall be for the sole and exclusive benefit of the City, the Authority and their assigns.

SECTION 8.03. Assignment. The 2018 Contract and any rights hereunder may be assigned by the Authority, as a whole or in part, without the necessity of obtaining the prior consent of the City. The assignment of the 2018 Contract or rights hereunder to the 2018 Trustee is solely in its capacity as 2018 Trustee and the duties, powers and liabilities of the 2018 Trustee in acting hereunder shall be subject to the provisions of the 2018 Indenture.

SECTION 8.04. Successor is Deemed Included in all References to Predecessor. Whenever either the City or the Authority is named or referred to herein, such reference shall be deemed to include the successor to the powers, duties and functions that are presently vested in the City or the Authority, and all agreements and covenants required hereby to be performed by or on behalf of the City or the Authority with respect to the Water System shall bind and inure to the benefit of the respective successors thereof whether so expressed or not.

SECTION 8.05. Waiver of Personal Liability. No councilmember, officer or employee of the City shall be individually or personally liable for the payment of the 2018 Installment Payments, but nothing contained herein shall relieve any councilmember, officer or employee of the City from the performance of any official duty provided by any applicable provisions of law or hereby.

SECTION 8.06. Article and Section Headings, Gender and References. The headings or titles of the several articles and sections hereof and the table of contents appended hereto shall be solely for convenience of reference and shall not affect the meaning, convenience or effect hereof, and words of any gender shall be deemed and construed to include all genders. All references herein to "Articles," "Sections" and other subdivisions or clauses are to the corresponding articles, sections, subdivisions or clauses hereof; and the words "hereby," "herein," "hereto," "herewith," "hereunder" and other words of similar import refer to the 2018 Contract as a whole and not to any particular article, section, subdivision or clause hereof.

SECTION 8.07. Partial Invalidity. If any one or more of the agreements or covenants or portions thereof required hereby to be performed by or on the part of the City or the Authority shall be contrary to law, then such agreement or agreements, such covenant or covenants or such portions thereof shall be null and void and shall be deemed separable from the remaining agreements and covenants or portions thereof and shall in no way affect the validity hereof, and the City and the Authority hereby declare that they would have executed the 2018 Contract and each and every other article, section, paragraph, subdivision, sentence, clause and phrase hereof irrespective of the fact that any one or more articles, sections, paragraphs, subdivisions, sentences, clauses or phrases hereof or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

SECTION 8.08. Net Contract. The 2018 Contract shall be deemed and construed to be a net contract, and the City shall pay absolutely net during the term hereof the

2018 Installment Payments and all other payments required hereunder, free of any deductions and without abatement, diminution or set-off whatsoever.

SECTION 8.09. California Law. The 2018 Contract shall be construed and governed in accordance with the laws of the State of California.

SECTION 8.10. Notices. All written notices to be given hereunder shall be given by mail to the party entitled thereto at its address set forth below, or at such other address as such party may provide to the other party in writing from time to time, namely:

If to the City:

City of Stockton  
425 N. Eldorado Street  
Stockton, California 95202  
Attention: City Manager

If to the Authority:

Stockton Public Financing Authority  
425 N. Eldorado Street  
Stockton, California 95202  
Attention: Executive Director

SECTION 8.11. Effective Date. The 2018 Contract shall become effective upon its execution and delivery.

SECTION 8.12. Execution in Counterparts. The 2018 Contract may be executed in several counterparts, each of which shall be deemed an original, and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have executed the 2018 Contract by their officers thereunto duly authorized as of the day and year first written above.

CITY OF STOCKTON

By \_\_\_\_\_  
City Manager

STOCKTON PUBLIC FINANCING AUTHORITY

By \_\_\_\_\_  
Executive Director

**EXHIBIT A****2018 INSTALLMENT PAYMENT SCHEDULE**

2018 Installment Payment Date	Interest Component	Principal Component	Total 2018 Installment Payments
April 1, 20[___]	\$	\$	\$
October 1, 20[___]			