
INSTALLMENT SALE AGREEMENT

Dated as of August 1, 2012

by and between the

**DISCOVERY BAY PUBLIC FINANCING AUTHORITY,
as Seller**

and the

**DISCOVERY BAY COMMUNITY SERVICES DISTRICT,
as Purchaser**

Relating to

DISCOVERY BAY WASTEWATER PROJECT

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INSTALLMENT SALE AGREEMENT

THIS INSTALLMENT SALE AGREEMENT, dated as of August 1, 2012, is by and between the DISCOVERY BAY PUBLIC FINANCING AUTHORITY, a joint powers authority duly organized and existing under the laws of the State of California (the "Authority"), and the DISCOVERY BAY COMMUNITY SERVICES DISTRICT, a community services district duly organized and existing under and by virtue of the Constitution and the laws of the State of California (the "District");

WITNESSETH:

WHEREAS, the Authority is a joint exercise of powers authority duly organized and existing under and pursuant to that certain Joint Exercise of Powers Agreement, dated as of July 1, 2012, by and among the District and the Byron Bethany Irrigation District (the "Irrigation District"), and under the provisions of Articles 1 through 4 (commencing with Section 6500) of Chapter 5 of Division 7 of Title 1 of the California Government Code (the "Act"), and is authorized pursuant to Article 4 (commencing with Section 6584) of the Act (the "Bond Law") to borrow money for the purpose, among other things, of acquiring certain wastewater facilities of the District (the "Project"), and to finance the acquisition of such facilities through the execution of installment sale agreements; and

WHEREAS, the District has determined that it is in the best interests of the District and its citizens, and is necessary and proper for District purposes, that the District acquire the Project from the Authority in the manner described herein, for the purposes of financing the Project as described herein, and that the District pay the Authority for the costs of acquiring the Project in the manner described herein; and

WHEREAS, the District also desires that the Authority issue its "Discovery Bay Public Financing Authority, Series 2012 Enterprise Revenue Bonds (Water and Wastewater Financing Projects), in the aggregate principal amount of \$_____ (the "Bonds"), to obtain funds necessary to implement such financing pursuant to this Installment Sale Agreement, and the Board of Directors of the District has determined that such issuance and sale pursuant to this Installment Sale Agreement will result in significant public benefits to the District within the meaning of Section 6586 of the Bond Law; and

WHEREAS, the debt service on the Bonds will be payable in part from installment payments payable by the District to the Authority pursuant to this Installment Sale Agreement (the "Installment Payments"), as further set forth in the Indenture of Trust, dated as of August 1, 2012, by and between _____, as Trustee, and the Authority relating to the Bonds; and

WHEREAS, the District wishes to secure said Installment Payments with a pledge of Net Revenues (as hereinafter defined) of the Wastewater Enterprise; and

WHEREAS, the Authority and the District have duly authorized the execution and delivery of this Installment Sale Agreement; and

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

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

ARTICLE I

DEFINITIONS

Section 1.1. Definitions. Unless the context clearly otherwise requires or unless otherwise defined herein, the capitalized terms in this Installment Sale Agreement shall have the respective meanings specified in the Indenture. In addition, the following terms defined in this Section 1.1 shall, for all purposes of this Installment Sale Agreement, have the respective meanings herein specified.

“Acquisition,” “Acquire” or “Acquired” means, with respect to the Project, the acquisition, construction, improvement, equipping, renovation, or perfection of an ownership or capacity interest in the Project.

“Act” means the Joint Exercise of Powers Act, being Articles 1 through 4 (commencing with Section 6500) of Chapter 5, Division 7, Title 1 of the California Government Code, as in existence on the Closing Date or as thereafter amended from time to time.

“Additional Payments” means the amounts payable by the District pursuant to Section 4.10.

“Additional Revenues” means, with respect to the issuance of any Parity Obligations, any or all of the following amounts:

(a) An allowance for Net Revenues from any additions or improvements to or extensions of the Wastewater Enterprise to be made with the proceeds of such Parity Obligations and also for Net Revenues from any such additions, improvements or extensions which have been made from moneys from any source but in any case which, during all or any part of the latest Fiscal Year or for any more recent consecutive twelve (12) month period selected by the District, were not in service, all in an amount equal to ninety percent (90%) of the estimated additional average annual Net Revenues to be derived from such additions, improvements and extensions for the first thirty-six (36) month period in which each addition, improvement or extension is respectively to be in operation, all as shown by the certificate or opinion of a qualified Independent Engineer.

(b) An allowance for Net Revenues arising from any increase in the charges made for service from the Wastewater Enterprise which has become effective (or adopted but not yet effective) prior to the incurring of such Parity Obligations but which, during all or any part of the latest Fiscal Year or for any more recent consecutive twelve (12) month period selected by the District, was not in effect, in an amount equal to the total amount by which the Net Revenues would have been increased if such increase in charges had been in effect during the whole of such Fiscal Year or twelve (12) month period, all as shown by the certificate or opinion of an Accountant or Fiscal Consultant employed by the District.

“Adjusted Annual Gross Revenues” means, for any Fiscal Year or twelve (12) calendar month

period, the Gross Revenues during such Fiscal Year or twelve (12) calendar month period plus the deposits in the Utility Fund and/or the Bond Fund from the Rate Stabilization Fund during or allocable to such Fiscal Year or twelve (12) calendar month period minus the deposits in the Rate Stabilization Fund from the Utility Fund and/or the Bond Fund during or allocable to such Fiscal Year or twelve (12) calendar month period.

“Adjusted Annual Net Revenues” means, for any Fiscal Year or twelve (12) calendar month period, the Adjusted Annual Gross Revenues during such Fiscal Year or twelve (12) calendar month period minus the Operation and Maintenance Costs during such Fiscal Year or twelve (12) calendar month period.

“Annual Debt Service” means, for any Fiscal Year or twelve (12) calendar month period, the Installment Payments and the Parity Payments required to be made under all Supplemental Installment Sale Agreements in such Fiscal Year or twelve (12) calendar month period.

“Authority” means the Discovery Bay Public Financing Authority, a joint exercise of powers authority duly organized and existing under the laws of the State, including the Act.

“Average Annual Debt Service” means the sum of the Annual Debt Service for the remaining Fiscal Years to the last Fiscal Year in which any Parity Payments are due under the last Outstanding Supplemental Installment Sale Agreement divided by the number of such Fiscal Years.

“Balloon Contract” means any Supplemental Installment Sale Agreement described as such in such Supplemental Installment Sale Agreement.

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

“Bond Fund” means the fund by that name established pursuant to Section 5.01 of the Indenture.

“Bonds” means the Discovery Bay Public Financing Authority, Series 2012 Enterprise Revenue Bonds (Water and Wastewater Financing Projects), issued pursuant to the Indenture on August __, 2012, in the aggregate principal amount of \$_____.

“Bond Year” means each twelve-month period extending from December 2 in one calendar year to December 1 of the succeeding calendar year, both dates inclusive, except that the first Bond Year shall commence on the Closing Date, and end on December 1, 2013.

“Business Day” means any day (other than a Saturday or a Sunday) on which banks in New York, New York, are open for business and on which the Trustee is open for business at its principal corporate trust office.

“Certificate of the District” means an instrument in writing signed by the President, Vice-President, or General Manager of the District, or by any other officer of the District duly authorized by the District for that purpose.

“Closing Date” means the date upon which there is a physical delivery of the Bonds in exchange for the amount representing the payment of the purchase price of the Bonds by the Original Purchaser.

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

“Contract Resource Obligation” means an obligation of the District, designated as a Contract Resource Obligation and entered into pursuant to Section 4.12, to make payments for any other commodity or service to another person or entity (including without limitation a separate utility system), the payments under which without the application of Section 4.12 would not be treated as Operation and Maintenance Costs in accordance with Generally Accepted Accounting Principles.

“Coverage Requirement” means, for any Fiscal Year or twelve (12) calendar month period: (1) an amount of Adjusted Annual Net Revenues equal in each case to at least (i) one hundred twenty-five percent (125%) of the Annual Debt Service for such Fiscal Year or twelve (12) calendar month period, (ii) one hundred five percent (105%) of the sum of the Annual Debt Service plus the Subordinate Annual Debt Service for such Fiscal Year or twelve (12) calendar month period, and (iii) one hundred percent (100%) of all obligations of the District which are charges, liens or encumbrances upon or payable from the Utility Fund and/or the Bond Fund in such Fiscal Year or twelve (12) calendar month period; and (2) an amount of Net Revenues equal to at least one hundred percent (100%) of all obligations of the District which are charges, liens or encumbrances upon or payable from the Utility Fund and/or the Bond Fund in such Fiscal Year or twelve (12) calendar month period (including all amounts owed to any issuer of a Financial Guaranty then in effect in a reserve fund or a reserve account under the terms of such Financial Guaranty); provided, that for purposes of determining compliance with the Coverage Requirement, the following provisions shall apply:

(A) Generally. Except as otherwise provided by subparagraph (B) of this proviso with respect to Variable Interest Rate Contracts and by subparagraph (C) of this proviso with respect to Obligations with respect to which a Payment Agreement is in force, interest on any Obligation shall be calculated based on the actual amount of interest that is payable under such Obligation;

(B) Interest on Variable Interest Rate Contracts. Interest deemed to be payable on any Variable Interest Rate Contract for periods when the actual interest rate can be determined shall be the actual Variable Interest Rates and for periods when the actual interest rate cannot yet be determined shall be calculated on the assumption that the interest rate on such Variable Interest Rate Contract would be equal to the rate (the “assumed SIFMA Index rate”) that is ninety percent (90%) of the average SIFMA Index during the twelve (12) calendar month period immediately preceding the date in which such calculation is made;

(C) Interest on Obligations with respect to which a Payment Agreement is in force. Interest deemed to be payable on any Obligation with respect to which a Payment Agreement is in force shall be based on the net economic effect on the District expected to be produced by the terms of such Obligation and such Payment Agreement, including but not limited to the effects that (i) such 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 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 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 Obligation plus the Payment Agreement Payments minus the Payment Agreement Receipts, and for the purpose of calculating as nearly as practicable the Payment Agreement Receipts and the Payment Agreement Payments under such Obligation, the following assumptions shall be made:

(1) District Obligated to Pay Net Variable Payments. If a Payment Agreement has been entered into by the District with respect to an Obligation resulting in the payment of a net variable interest rate with respect to such Obligation and Payment Agreement by the District, the interest rate on such Obligation for future periods when the actual interest rate cannot yet be determined shall be assumed (but only 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 Obligation, minus (ii) the fixed rate paid by the Qualified Counterparty to the District, plus (iii) the lesser of (A) the interest rate cap, if any, provided by a Qualified Counterparty with respect to such Payment Agreement (but only during the period that such interest rate cap is in effect) and (B) the assumed SIFMA Index rate; and

(2) District Obligated to Pay Net Fixed Payments. If a Payment Agreement has been entered into by the District with respect to an Obligation resulting in the payment of a net fixed interest rate with respect to such Obligation and Payment Agreement by the District, the interest on such Obligation shall be included in the calculation of the Coverage Requirement (but only during the period the Payment Agreement is in effect) by including for each Fiscal Year or twelve (12) calendar month period an amount equal to the amount of interest payable at the fixed interest rate pursuant to such Payment Agreement; and

(D) For purposes of calculating the Annual Debt Service or the Subordinate Annual Debt Service on any Balloon Contract, it shall be assumed that the principal of such Balloon Contract, together with interest thereon at a rate equal to the assumed SIFMA Index rate, will be amortized in equal annual installments of principal and interest over a term of thirty (30) years.

“Date of Operation” means, with respect to any uncompleted portion of the Project, the estimated date by which such portion of the Project will have been completed and, in the opinion of an Independent Engineer, will be ready for continuous and reliable operation by the District.

“District” means the Town of Discovery Bay Community Services District, a community services district duly organized and existing under and by virtue of the laws and Constitution of the State of California; however, any reference to District in this Installment Sale agreement shall specifically mean the Wastewater Enterprise of the District, unless the context clearly indicates otherwise.

“Engineer’s Report” means a report signed by an Independent Engineer.

“Event of Default” means any of the events described in Section 8.1.

“Financial Guaranty” means a policy of municipal bond insurance or surety bonds issued by a municipal bond insurer or a letter of credit issued by a bank or other institution if the obligations insured by such insurer or issued by such bank or other institution, as the case may be, have ratings at the time of issuance of such policy or surety bond or letter of credit in the highest rating category by S&P and Moody’s and, if rate by A.M. Best & Company, also in the highest rating category by A.M. Best & Company.

“Fiscal Consultant” means any consultant or firm of such consultants appointed by the Authority and the District and who, or each of whom: (a) is judged by the Authority and the District to have experience in matters relating to the financing of wastewater system enterprises; (b) is in fact independent and not under domination of the Authority or the District; (c) does not have any substantial interest, direct

or indirect, with the Authority or the District other than as purchaser of the Bonds or any Parity Obligations; and (d) is not connected with the Authority or the District as an officer or employee of the Authority or the District, but who may be regularly retained to make reports to the Authority or the District.

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

“Gross Revenues” means for any Fiscal Year or other period, all gross income and revenue received by the District from the ownership and operation of the Wastewater Enterprise, including, without limiting the generality of the foregoing, (a) all rates, fees and charges received for, and all other income and receipts derived by the District from the operation of the Wastewater Enterprise or arising from the Wastewater Enterprise determined in accordance with generally accepted accounting principles, including all rates, fees and charges received by the District for the Wastewater Enterprise service and the other services of the Wastewater Enterprise, (b) all proceeds of insurance (if any) covering business interruptions loss relating to the Wastewater Enterprise, (c) all Payment Agreement Receipts (d) the earnings on and income derived from the investment of such income, rents, rates, fees, charges or other monies to the extent that the use of such earnings and income is limited by or pursuant to law to the Wastewater Enterprise, including all income from the investment of amounts on deposit in the Utility Fund, the Parity Obligation Payment Fund, and the Rate Stabilization Fund, (e) the proceeds derived by the District directly or indirectly from the sale, lease or other disposition of a part of the Wastewater Enterprise, and (f) all other monies howsoever derived by the District from the operation of the Wastewater Enterprise or arising from the Wastewater Enterprise, including major facility charges; provided, that the term “Gross Revenues” shall not include contributions in aid of construction or refundable customers’ deposits or any other deposits subject to refund until such deposits have become the property of the District. Notwithstanding the foregoing, there shall be deducted from Gross Revenues any amounts transferred into the Rate Stabilization Fund as contemplated by Section 4.7(c), and there shall be added to Gross Revenues any amounts transferred out of the Rate Stabilization Fund as contemplated by Section 4.7(c).

“Gross Revenues of the Water Enterprise” means for any Fiscal Year or other period, all gross income and revenue received by the District from the ownership and operation of the Water Enterprise in accordance with Water Installment Sale Agreement.

“Indenture” means the Indenture of Trust, dated as of August 1, 2012, by and between _____, as Trustee, and the Authority relating to the Bonds.

“Independent Engineer” means any registered engineer or firm of registered engineers of national reputation generally recognized to be well qualified in engineering matters relating to wastewater systems, appointed and paid by the District, and who or each of whom –

- (1) is in fact independent and not under the domination of the District;
 - (2) does not have a substantial financial interest, direct or indirect, in the operations of the District;
- and
- (3) is not connected with the District as a director, officer or employee of the District, but may be regularly retained to make reports to the District.

“Installment Payment Date” means not less than five (5) Business Days prior to each June 1 and December 1 during the Term of this Installment Sale Agreement, commencing not less than five (5) Business Days prior to December 1, 2012.

“Installment Payments” means the amounts payable by the District pursuant to Section 4.4, including any prepayments thereof pursuant to Article IX.

“Installment Sale Agreement” means this Installment Sale Agreement, together with any duly authorized and executed amendments hereto.

“Insurance Policy” means the insurance policy issued by the Insurer guaranteeing the scheduled payment of principal of and interest on the Bonds when due.

“Insurer” or “Bond Insurer” means Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.), a New York stock insurance company, or any successor thereto or assignee thereof, or any other insurance company that is then providing a policy of insurance for any outstanding Parity Obligation.

“Maximum Annual Debt Service” means, as of the date of any calculation and with respect to the Installment Payments or any Parity Obligations, as the case may be, the maximum sum obtained for the current or any future Bond Year during the Term of this Installment Sale Agreement by totaling the following amounts for such Bond Year:

(a) the aggregate amount of the Installment Payments coming due and payable in such Bond Year pursuant hereto, except to the extent payable from any security deposit pursuant to Section 9.1;

(b) the principal amount of all outstanding Parity Obligations, if any, coming due and payable by their terms in such Bond Year; and

(c) the amount of interest which would be due during such Bond Year on the aggregate principal amount of all outstanding Parity Obligations, if any, which would be outstanding in such Bond Year if such Parity Obligations are retired as scheduled; *provided, however*, that with respect to any Parity Obligations which bear interest at a variable rate, such interest shall be calculated at an assumed rate equal to the average rate of interest per annum for each of the five previous whole calendar years as shown by the SIFMA Index (or, in the event and to the extent such index is not maintained for all or any portion of such period, any similar index of variable rate interest for tax-exempt obligations as may be selected by the District in its sole discretion.

“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 obligations secured by Parity Payments at the request of the Authority.

“Wastewater Enterprise” means, collectively, the entire wastewater collection, production, treatment and disposal system owned or operated by the District, including, but not limited to, any and all properties and assets, real and personal, tangible and intangible, of the District, now or hereafter existing, used or pertaining to the collection, production, treatment and disposal system, as well as all pipes, valves, machinery and all other appurtenances necessary, useful or convenient for the collection, treatment and

disposal of wastewater, and any necessary lands, rights of way and other real or personal property useful in connection therewith, and all additions, extensions, expansions, improvements and betterments thereto and equipments thereof.

“Net Proceeds” means, when used with respect to any condemnation award or any insurance proceeds received with respect to the Wastewater Enterprise, the amount of such condemnation award or insurance proceeds remaining after payment of all expenses (including attorneys’ fees) incurred in the collection of such award or proceeds.

“Net Revenues” means, for any Fiscal Year or twelve (12) calendar month period, the Gross Revenues during such Fiscal Year or twelve (12) calendar month period less the Operation and Maintenance Costs during such Fiscal Year or twelve (12) calendar month period.

“Net Revenues of the Water Enterprise” means, for any Fiscal Year or twelve (12) calendar month period, the Gross Revenues of the Water Enterprise during such Fiscal Year or twelve (12) calendar month period less the Operation and Maintenance Costs of the Water Enterprise during such Fiscal Year or twelve (12) calendar month period in accordance with Water Installment Sale Agreement.

“Obligations” means all Parity Obligations and all Subordinate Obligations.

“Operation and Maintenance Costs” means the reasonable and necessary costs and expenses paid by the District for maintaining and operating the Wastewater Enterprise, including but not limited to (a) costs of acquisition of water, including all associated treatment and disposal costs, to be used by the Wastewater Enterprise, (b) costs of electricity and other forms of energy supplied to the Wastewater Enterprise, (c) the reasonable expenses of management and repair and other costs and expenses necessary to maintain and preserve the Wastewater Enterprise in good repair and working order and (d) the reasonable administrative costs of the District attributable to the operation and maintenance of the Wastewater Enterprise, but in all cases excluding (i) debt service payable on obligations incurred by the District with respect to the Wastewater Enterprise, including but not limited to the Installment Payments and any Obligations, (ii) depreciation, replacement and obsolescence charges or reserves therefor, and (iii) amortization of intangibles or other bookkeeping entries of a similar nature.

“Operation and Maintenance Costs of the Water Enterprise” means the reasonable and necessary costs and expenses paid or incurred by the District for maintaining and operating the Water Enterprise in accordance with the Water Installment Sale Agreement.

“Opinion of Counsel” means a written opinion of The Weist Law Firm or such other counsel of recognized national standing in the field of law relating to municipal bonds, retained by the District and satisfactory to the Trustee (who shall be under no liability by reason of such approval).

“Original Purchaser” means Kinsell, Newcomb & De Dios, Inc., as the first purchaser of the Bonds upon their delivery by the Trustee on the Closing Date.

“Parity Obligations” means Supplemental Installment Sale Agreements, Payment Agreements, and any other leases, loan agreements, bonds, notes or other obligations of the District payable from and secured by a pledge of and lien upon any of the Net Revenues on a parity with the Installment Payments entered into or issued pursuant to and in accordance with Section 4.9 herein.

“Parity Payments” means all installment payments scheduled to be paid by the District under all Parity Obligations.

“Payment Agreement” means a written agreement for the purpose of managing or reducing the District’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 District and a Qualified Counterparty as authorized under any applicable laws of the State in connection with, or incidental to (but not necessarily concurrent with), the entering into of any Supplemental Installment Sale Agreement, 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” means the amounts periodically required to be paid by the District to all Qualified Counterparties under all Payment Agreements.

“Payment Agreement Receipts” means the amounts periodically required to be paid by all Qualified Counterparties to the District under all Payment Agreements.

“Project” means the land, improvements and other property comprising the project described more fully in Exhibit B attached hereto and by this reference incorporated herein, as such description may be amended by the District from time to time pursuant to and in accordance with the terms hereof.

“Purchase Price” means the purchase price of the Project, in the aggregate principal amount of _____ Million _____ Hundred _____ Thousand Dollars (\$_____), together with interest on the unpaid principal balance, payable in Installment Payments coming due and payable in the respective amounts and on the respective dates specified in Exhibit A.

“Qualified Counterparty” means a party (other than the District or a party related to the District) who is the other party to a Payment Agreement and (1) (a) who is rated at least one of the two highest rating categories assigned by at least two of the Rating Agencies to the obligations secured by Parity Payments (without regard to any gradations within a rating category), (b) whose senior debt obligations are rated at least one of the two highest rating categories assigned by at least two of the Rating Agencies to the obligations secured by Parity Payments (without regard to any gradations within a rating category), or guaranteed by an entity so rated, (c) whose obligations under the Payment Agreement are guaranteed for the entire term of the Payment Agreement by a bond insurer or other institution which has been assigned a credit rating at least one of the two highest rating categories assigned by at least two of the Rating Agencies to the obligations secured by Parity Payments, or (d) whose obligations under the Payment Agreement are collateralized in such a manner as to obtain a rating at least one of the two highest rating categories assigned by at least two of the Rating Agencies to the obligations secured by Parity Payments, and (2) who is otherwise qualified to act as the other party to a Payment Agreement under all applicable laws of the State.

“Qualified Reserve Fund Credit Instrument” means an irrevocable standby or direct-pay letter of credit or surety bond issued by a commercial bank or insurance company and deposited with the Trustee, provided that all of the following requirements are met at the time of acceptance thereof by the Trustee: (a) the long-term credit rating of such bank or claims paying ability of such insurance company is AAA or better from S&P and AAA or better from Moody’s and, if rated by A.M. Best & Company, is rated in the highest rating category by A.M. Best & Company; (b) such letter of credit or surety bond has a term of at least 12 months; (c) such letter of credit or surety bond has a stated amount at least equal to the portion of

the Reserve Requirement with respect to which funds are proposed to be released; and (d) the Trustee is authorized pursuant to the terms of such letter of credit or surety bond to draw thereunder an amount equal to any deficiencies which may exist from time to time in the Interest Account, the Principal Account or the Sinking Account for the purpose of making payments required pursuant to the Indenture.

“Rate Stabilization Fund” means the fund by that name established pursuant to Section 4.7(c) hereof.

“Related Document” means this Wastewater Installment Sale Agreement, the Water Installment Sale Agreement, the Indenture, or any other applicable transaction document, including any underlying security agreement.

“Reserve Fund” means the account by that name in the Bond Fund established pursuant to Section 5.02 of the Indenture.

“Reserve Requirement” means, as of any calculation date in a Bond Year, an amount equal to the lesser of (i) ten percent (10%) of the sale proceeds (within the meaning of section 148 of the Code) of the Bonds, (ii) 125% of average annual debt service on the Bonds for that and every succeeding Bond Year, or (iii) Maximum Annual Debt Service.

“SIFMA” means the Securities Industry and Financial Markets Association, its successors and assigns.

“SIFMA Index” means, with respect to any date, the “SIFMA Municipal Swap Index” (such index previously known as the “BMA Municipal Swap Index”) announced by Municipal Market Data on such date and based upon the weekly interest rate resets of Tax-Exempt variable rate issues included in a database maintained by Municipal Market Data which meets specified criteria established by SIFMA. If for any reason the SIFMA Index for any date is not announced or is otherwise unavailable on the applicable date, the SIFMA Index for such date shall be the SIFMA Index for the next preceding date within the preceding 180 days on which the SIFMA Index was available. If for any reason the SIFMA Index for any date is not announced or is otherwise unavailable on any date in the immediately preceding 180 days, the SIFMA Index for such date shall be an index selected by the District or Authority which is a composite of bid-side yields of obligations (a) which (i) provide for a weekly adjustment of the interest rate, and (ii) which (A) must be purchased on demand of the owner thereof at any time upon notice of up to seven (7) days or (B) are payable in full not later than seven (7) days after the date of evaluation and (b) the interest on which is Tax-Exempt and is not subject to any personal “alternative minimum tax” or similar tax under the Code unless all Tax-Exempt securities are subject to such tax. If no such index is so selected by the District or Authority, the SIFMA Index for the applicable date shall be an index computed by the District or Authority which shall be equal to 95% of the yield applicable to 91-day United States Treasury bills, such yield to be computed on the basis of the coupon equivalent of the average per annum discount rate at which such Treasury bills shall have been sold at the most recent Treasury auction conducted prior to the applicable date.

“State” means the State of California.

“Subordinate Annual Debt Service” means, for any Fiscal Year or twelve (12) calendar month period, the Subordinate Payments required to be made under all Supplemental Installment Sale Agreements in such Fiscal Year or twelve (12) calendar month period.

“Subordinate Obligations” means all Supplemental Installment Sale Agreements or Payment Agreements the Subordinate Payments under which (other than Termination Payments related to Subordinate Payment Agreements) are secured by the subordinate lien on Net Revenues created hereby and are payable on a parity therefrom.

“Subordinate Payment Agreements” means a Payment Agreement which is a Subordinate Obligation.

“Subordinate Payments” means all installment payments scheduled to be paid by the District under all Subordinate Obligations.

“Supplemental Installment Sale Agreements” means all installment sale agreements supplemental to this Installment Sale Agreement executed and entered into by the District and the Authority under and pursuant to this Installment Sale Agreement and applicable law, as originally executed and entered into and as they may from time to time be amended or supplemented in accordance herewith and therewith.

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

“Term of this Installment Sale Agreement” means the time during which this Installment Sale Agreement is in effect, as provided in Section 4.2 hereof.

“Utility Fund” means the District’s existing Wastewater Utility Fund established and held by the District with respect to the Wastewater Enterprise.

“Trustee” means _____, as Trustee hereunder or any other trust company or banking corporation which may at any time be substituted in its place as provided in this Indenture.

“Variable Interest Rate” means any variable interest rate or rates to be paid under any Supplemental Installment Sale Agreements, the method of computing which variable interest rate shall be as specified in the applicable Supplemental Installment Sale Agreement, which Supplemental Installment Sale Agreement 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 Contracts” means, for any period of time, any Supplemental Installment Sale Agreements that bear a Variable Interest Rate during such period, except that no Supplemental Installment Sale Agreement shall be treated as a Variable Interest Rate Contract if the net economic effect of interest rates on any particular Payments or such Supplemental Installment Sale Agreement and interest rates on any other Payments of the same Supplemental Installment Sale Agreement, as set forth in such Supplemental Installment Sale Agreement, or the net economic effect of a Payment Agreement with respect to any particular Payments, in either case is to produce obligations that bear interest at a fixed interest rate, and any Supplemental Installment Sale Agreement with respect to which a Payment Agreement is in force shall be treated as a Variable Interest Rate Contract if the net economic effect of the Payment Agreement is to produce obligations that bear interest at a Variable Interest Rate.

“Wastewater Enterprise” means, collectively, the entire wastewater collection, storage, treatment, transmission and disposal system now owned or operated by the District, and all other properties, structures or works hereafter acquired and constructed by the District and determined to be a part of the Wastewater Enterprise, including, but not limited to, any and all properties and assets, real and personal, tangible and intangible, of the District, now or hereafter existing, used or pertaining to the collection, storage, treatment, transmission and disposal system, including all all pipes, valves, machinery and all other appurtenances necessary, useful or convenient for the collection, storage, treatment, transmission and disposal of wastewater, and any necessary lands, rights of way and other real or personal property useful in connection therewith, and all additions, extensions, expansions, improvements and betterments thereto and equipments thereof.

“Wastewater Installment Sale Agreement” means this Wastewater Installment Sale Agreement, dated as of August 1, 2012, by and between the District and the Authority relating to the Wastewater Project, together with any duly authorized and executed amendments thereto.

“Wastewater Project” means the land, improvements and other property comprising the project described more fully in Exhibit B hereto.

“Water Enterprise” means, collectively, the entire water collection, storage, treatment, and distribution system now owned or operated by the District, and all other properties, structures or works hereafter acquired and constructed by the District and determined to be a part of the Water Enterprise in accordance with Water Installment Sale Agreement.

“Water Installment Sale Agreement” means the Water Installment Sale Agreement, dated as of August 1, 2012, by and between the District and the Authority relating to the Water Project, together with any duly authorized and executed amendments thereto.

“Water Project” means the land, improvements and other property comprising the project described more fully in Exhibit B of the Water Installment Sale Agreement.

ARTICLE II

COVENANTS AND REPRESENTATIONS

Section 2.1. Covenants and Representations of the District. The District makes the following covenants and representations to the Authority and the Insurer that as of the Closing Date:

(a) The District is a community services district duly organized and validly existing under the laws of the State, has full legal right, power and authority to enter into this Installment Sale Agreement and to carry out and consummate all transactions contemplated hereby, and by proper action has duly authorized the execution and delivery of this Installment Sale Agreement.

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

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

(d) The execution and delivery of this Installment Sale Agreement, the consummation of the transactions herein contemplated and the fulfillment of or compliance with the terms and conditions hereof, will not conflict with or constitute a violation or breach of or default (with due notice or the passage of time or both) under any applicable law or administrative rule or regulation, or any applicable court or administrative decree or order, or any indenture, mortgage, deed of trust, lease, contract or other agreement or instrument to which the District is a party or by which it or its Project are otherwise subject or bound, or result in the creation or imposition of any prohibited lien, charge or encumbrance of any nature whatsoever upon any of the property or assets of the District, which conflict, violation, breach, default, lien, charge or encumbrance would have consequences that would materially and adversely affect the consummation of the transactions contemplated by this Installment Sale Agreement, or the financial condition, assets, Project or operations of the Wastewater Enterprise.

(e) No consent or approval of any trustee or holder of any indebtedness of the District or of the voters of the District, and no consent, permission, authorization, order or license of, or filing or registration with, any governmental authority is necessary in connection with the execution and delivery of this Installment Sale Agreement or the consummation of any transaction herein and therein contemplated, except as have been obtained or made and as are in full force and effect.

(f) There is no action, suit, proceeding, inquiry or investigation before or by any court or federal, state, municipal or other governmental authority pending or threatened against or affecting the District or the Wastewater Enterprise which, if determined adversely to the District or its interests, would have a material and adverse effect upon the consummation of the transactions contemplated by or the validity of this Installment Sale Agreement or upon the financial condition or operation of the Wastewater Enterprise, and the District is not in default with respect to any order or decree of any court or any order, regulation or demand of any federal, state, municipal or

other governmental authority, which default might have consequences that would materially and adversely affect the consummation of the transactions contemplated by this Installment Sale Agreement, or the financial conditions or operations of the Wastewater Enterprise.

(g) The District has heretofore established the Utility Fund into which the District deposits and will continue to deposit all Gross Revenues, and which the District will maintain throughout the Term of this Installment Sale Agreement.

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

(i) The District hereby agrees to pay or reimburse the Insurer any and all charges, fees, costs and expenses that the Insurer may reasonably pay or incur in connection with (i) the administration, enforcement, defense or preservation of any rights or security in any Related Document; (ii) the pursuit of any remedies under the Indenture or any other Related Document or otherwise afforded by law or equity, (iii) any amendment, waiver or other action with respect to, or related to, the Indenture or any other Related Document whether or not executed or completed, or (iv) any litigation or other dispute in connection with the Indenture or any other Related Document or the transactions contemplated thereby, other than costs resulting from the failure of the Insurer to honor its obligations under the Insurance Policy. The Insurer reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver or consent proposed in respect of the Indenture or any other Related Document.

Section 2.2. Covenants and Representations of the Authority. The Authority makes the following covenants and representations as the basis for its undertakings herein contained:

(a) The Authority is a joint powers authority, duly organized and existing under the laws of the State. The Authority has the power to enter into the transactions contemplated by this Installment Sale Agreement and to carry out its obligations hereunder. By proper action of its governing body, the Authority has been duly authorized to execute, deliver and duly perform this Installment Sale Agreement and the Indenture.

(b) To finance the Project, the Reserve Fund deposit and the Costs of Issuance, the Authority will issue its Bonds, which will mature, bear interest and be subject to redemption as set forth in the Indenture.

(c) The Bonds will be issued under and secured by the Indenture, and pursuant thereto, certain of the Authority's interests in this Installment Sale Agreement have been assigned to the Trustee as security for payment of the principal of, premium, if any, and interest on the Bonds.

(d) The Authority is not in default under any of the provisions of the laws of the State, which default would affect its existence or its powers referred to in subsection (a) of this Section 2.2.

ARTICLE III

ISSUANCE OF BONDS; ACQUISITION OF PROJECT

Section 3.1. The Bonds. The Bonds authorized to be issued by the Authority under and subject to the Bond Law and the terms of the Indenture shall be dated the Bond Date and be designated the “Discovery Bay Public Financing Authority, Series 2012 Enterprise Revenue Bonds (Water and Wastewater Financing Projects),” and shall be issued in the initial aggregate principal amount of _____ Million _____ Hundred Thousand Dollars (\$_____).

The Authority agrees that the proceeds of sale of the Bonds shall be paid to the Trustee on the Closing Date for deposit pursuant to the terms and conditions of the Indenture. The District hereby approves the Indenture, the assignment to the Trustee of the rights of the Authority assigned under and pursuant to the Indenture, and the issuance of the Bonds by the Authority under and pursuant to the Indenture.

Section 3.2. Purpose of the Installment Sale Agreement. (1) The purposes of this Installment Sale Agreement is to provide for the District’s purchase from the Authority of the Project and thereby provide for the funding thereof. (2) In consideration of the obligation of the District to pay the Purchase Price as provided herein, the Authority hereby sells, assigns and transfers to the District, and the District hereby purchases from the Authority, all of the Authority’s right, title and interest in the Project. All right, title and interest in and to the Project shall vest in the District without any further action by the District or the Authority. (3) As consideration for the sale, assignment and transfer by the Authority to the District of all of the Authority’s right, title and interest in the Project, the District agrees to pay to the Authority the Purchase Price. The Purchase Price to be paid by the District to the Authority hereunder is the sum of the principal amount of the District’s obligation hereunder plus the interest to accrue on the unpaid balance of such principal amount from the date hereof over the term hereof, subject to prepayment as provided herein.

ARTICLE IV

SALE OF PROJECT; INSTALLMENT PAYMENTS

Section 4.1. Acquisition and Sale of Project. The Authority hereby sells the Project to the District and the District hereby purchases the Project from the Authority, upon the terms and conditions set forth in this Installment Sale Agreement.

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

Section 4.3. Title. Title to the Project, as enhanced from time to time, is deemed conveyed to and vested in the District.

Section 4.4. Installment Payments.

(a) Obligation to Pay. The District agrees to pay to the Authority, its successors and assigns, but solely from the Net Revenues and other funds pledged hereunder, as the purchase price of the Project, the aggregate principal amount of _____ Million _____ Hundred _____ Thousand Dollars (\$_____) together with interest on the unpaid principal balance, payable in Installment Payments coming due and payable in the respective amounts and on the respective dates specified in Exhibit A. The Installment Payments shall be paid by the District to the Trustee, as assignee of the Authority pursuant to the Indenture, in the amounts and at the times as set forth in Section 4.5(b) hereof. The District shall specifically identify the Installment Payments as “Wastewater Installment Sale Agreement Payments.”

(b) Effect of Prepayment. In the event that the District prepays all remaining Installment Payments in full pursuant to Article IX, the District’s obligations under this Installment Sale Agreement shall thereupon cease and terminate, including but not limited to the District’s obligation to pay Installment Payments therefor under this Section 4.4; *provided, however*, that the District’s obligations to compensate and indemnify the Trustee pursuant to Sections 4.10 and 6.3 shall survive such prepayment. In the event that the District prepays the Installment Payments in part but not in whole pursuant to Section 9.2 or Section 9.3, the principal component of each succeeding Installment Payment shall be reduced as provided in such Sections, and the interest component of each remaining Installment Payment shall be reduced by the aggregate corresponding amount of interest which would otherwise be payable on the Bonds thereby redeemed pursuant to the applicable provisions of Section 4.01 of the Indenture.

(c) Rate on Overdue Payments. In the event the District should fail to make any of the payments required in this Section 4.4 and Section 4.10 hereof, the payment in default shall continue as an obligation of the District until the amount in default shall have been fully paid, and the District agrees to pay the same with interest thereon, from the date of default to the date of payment, at the rate of ten percent (10%) per annum.

(d) Assignment. The District understands and agrees that all Installment Payments have been assigned by the Authority to the Trustee in trust, pursuant to the Indenture, for the benefit of the Owners of the Bonds, and the District hereby assents to such assignment. The Authority hereby directs the District, and the District hereby agrees, to pay to the Trustee at its Office, all amounts payable by the District pursuant to this Section 4.4 and all amounts payable by the District pursuant to Article IX hereof.

Section 4.5. Pledge and Application of Net Revenues.

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

All Net Revenues, whether held by the District as trustee or deposited with the Trustee, shall nevertheless be disbursed, allocated and applied solely to the uses and purposes hereinafter in this Article IV set forth, and shall be accounted for separately and apart from all other money, funds, accounts or other resources of the District.

(b) Deposits into Utility Fund; Transfers to Make Installment Payments. All of the Gross Revenues shall be deposited by the District immediately upon receipt in the Utility Fund, which fund is hereby continued in the treasury of the District and which fund shall be maintained by the District, and all money in the Utility Fund shall be set aside by the District and applied to the payment of Maintenance and Operation Costs, as and when required to be paid.

The District hereby covenants and agrees that all Net Revenues will be held by the District in the Utility Fund in trust for the benefit of the Trustee (as assignee of the rights of the Authority hereunder) and the Bond Owners, and for the benefit of the owners of any Parity Obligations. On or before each Installment Payment Date, the District shall withdraw from the Utility Fund and transfer to the Trustee, for deposit in the Bond Fund, an amount of Net Revenues which, together with the balance (but only to the extent that such balance is credited to the Wastewater Enterprise) then on deposit in the Bond Fund, including all sub accounts, but excluding the Reserve Fund (other than amounts resulting from the prepayment of the Installment Payments pursuant to Article IX and other than amounts required for payment of principal of or interest on any Bonds which have matured or been called for redemption but which have not been presented for payment), is equal to the aggregate amount of the Installment Payment coming due and payable on the next succeeding Installment Payment Date.

(c) Establishment and Maintenance of Accounts. All Gross Revenues in the Utility Fund shall be set aside by the District to pay Operation and Maintenance Costs and for transfer by the District to the Trustee for deposit in the Bond Fund, or transfer to a trustee or fiscal agent with respect to Parity Obligations, as the case may be, and shall be applied as follows and in the following order of priority:

(1) Operation and Maintenance Costs. In order to carry out and effectuate the pledge and lien contained herein, the District agrees and covenants to pay all Operation and Maintenance Costs of the Enterprise (including amounts reasonably required to be set aside in contingency reserves for Operation and Maintenance Costs of the Enterprise, the payment of which is not then immediately required) from the Utility Fund as they become due and payable. Pursuant to Section 5.1 hereof, the District shall annually prepare a budget for Operation and Maintenance Costs.

(2) Debt Service Accounts. To pay all Installment Payments, and all other Parity Obligations and payment of amounts owed to an Insurer, or a Qualified Swap Provider hereunder or pursuant to the Indenture or a Supplemental Indenture or Supplemental Installment sale Agreement, without preference or priority, and in the event of any insufficiency of such moneys, ratably without any discrimination or preference.

(3) Reserve Funds. All amounts, if any, required to restore the balance in the Reserve Fund to the full amount of the Reserve Requirement (but only to the extent that a negative balance therein is properly traced and charged to the Wastewater Enterprise), or with respect to Parity Obligations, to replenish reserve accounts therefore, such payments shall be made in accordance with the terms of this Installment Sale Agreement, the Indenture and of such Parity Obligations, as the case may be, without preference or priority, and in the event of any insufficiency of such moneys, ratably without any discrimination or preference.

(4) Subordinate Obligation Payments. After the payments contemplated by subparagraphs (1), (2) and (3) above have been made, any amounts thereafter remaining in the Utility Fund may from time to time be used for the payment of the interest and principal payments becoming due and payable under all Supplemental Installment Sale Agreements that are

Subordinate Obligations and the net payments becoming due and payable on all Subordinate Payment Agreements (except any Termination Payments) and any other amounts becoming due and payable with respect to Subordinate Obligations (including any letter of credit and remarketing fees and any other amounts becoming due and payable to make up any deficiency in the reserve funds and the reserve accounts for Subordinate Obligations, including all costs of any Qualified Reserve Fund Credit Instrument) and any Termination Payments on all Parity Payment Agreements; so long as the following conditions are met:

(i) all Operations and Maintenance Costs are being and have been paid and are then current; and

(ii) all deposits and payments contemplated by subparagraphs (1), (2) and (3) above shall have been made in full and no deficiency in any reserve fund or reserve account for Parity Obligations shall exist and no costs in connection with a Qualified Reserve Fund Credit Instrument shall be due and payable, and there shall have been paid, or segregated within the Utility Fund and Bond Fund, the amounts currently payable pursuant to subparagraphs (1), (2) and (3) above.

(5) General Expenditure; Rate Stabilization Fund. All Gross Revenues remaining after paying all of the sums required to be paid hereunder by the District by the provisions of Sections 4.5(c)(1), (2), (3) and (4) hereof, may be withdrawn from the Utility Fund for expenditure for any lawful purpose of the District, including (i) the payment of Additional Payments, (ii) the payment of Termination Payments (iii) the payment of any unsecured obligations, (iv) the acquisition and construction of extensions and betterments to the Wastewater Enterprise, (v) the prepayment of any obligations of the District relating to the Wastewater Enterprise, or (vi) any other lawful purposes of the District, including, but not limited to, deposits to the Rate Stabilization Fund in accordance with Section 4.7(c).

(d) Certain Necessary Transfers. The parties hereto acknowledge that although all Parity Obligations are secured equally and ratably by Net Revenues, debt service and other funds with respect to obligations other than the Bonds may be held by the Trustee or by trustees other than the Trustee under documents and agreements other than the Indenture and this Installment Sale Agreement, and the Installment Sale Agreement and the Indenture impose no obligations upon the Trustee with respect to such other obligations. The District is hereby authorized to make such transfers from the Utility Fund necessary to effectuate such Parity Obligations' parity claim on the Net Revenues contemplated hereby.

(e) Budget and Appropriation of Installment Payments. During the Term of this Installment Sale Agreement, the District shall adopt and make all necessary budgets and appropriations of the Installment Payments from the Net Revenues, and shall, upon written request, furnish to the Trustee a Written Certificate stating that the Installment Payments have been included in the final budget of the District for the current Fiscal Year. In the event any Installment Payment requires the adoption by the District of any supplemental budget or appropriation, the District shall promptly adopt the same. The covenants on the part of the District contained in this subsection (e) shall be deemed to be and shall be construed to be duties imposed by law and it shall be the duty of each and every public official of the District to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the District to carry out and perform the covenants and agreements in this subsection (e).

Section 4.6. Special Obligation of the District; Obligations Absolute. The District's obligation to pay the Installment Payments, the Additional Payments and any other amounts coming due and payable hereunder shall be a special obligation of the District limited solely to the Net Revenues. Under no circumstances shall the District be required, obligated or liable to advance moneys derived from any source of income other than the Net Revenues and other sources specifically identified herein for the payment of the Installment Payments and the Additional Payments, nor shall any other funds or property of the District be liable for the payment of the Installment Payments and the Additional Payments and any other amounts coming due and payable hereunder.

Subject to the preceding paragraph, the obligations of the District to make the Installment Payments and the Additional Payments from the Net Revenues and to perform and observe the other agreements contained herein shall be absolute and unconditional and shall not be subject to any defense or any right of setoff, counterclaim or recoupment arising out of any breach of the District, the Authority or the Trustee of any obligation to the District or otherwise with respect to the Wastewater Enterprise, whether hereunder or otherwise, or out of indebtedness or liability at any time owing to the District by the Authority. Until such time as all of the Installment Payments, all of the Additional Payments and all other amounts coming due and payable hereunder shall have been fully paid or prepaid, the District (a) will not suspend or discontinue payment of any Installment Payments, Additional Payments or such other amounts, (b) will perform and observe all other agreements contained in this Installment Sale Agreement, and (c) will not terminate the Term of this Installment Sale Agreement for any cause, including, without limiting the generality of the foregoing, the occurrence of any acts or circumstances that may constitute failure of consideration, eviction or constructive eviction, destruction of or damage to the Wastewater Enterprise, sale of the Wastewater Enterprise, the taking by eminent domain of title to or temporary use of any component of the Wastewater Enterprise, commercial frustration of purpose, any change in the tax or law other laws of the United States of America or the State or any political subdivision of either thereof or any failure of the Authority or the Trustee to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the Indenture or this Installment Sale Agreement.

Nothing contained in this Section 4.6 shall be construed to release the Authority or the Trustee from the performance of any of the agreements on its part contained herein or in the Indenture, and in the event the Authority or the Trustee shall fail to perform any such agreements, the District may institute such action against the Authority or the Trustee as the District may deem necessary to compel performance so long as such action does not abrogate the obligations of the District contained in the preceding paragraph. The District may, however, at the District's own cost and expense and in the District's own name or in the name of the Authority prosecute or defend any action or proceeding or take any other action involving third persons which the District deems reasonably necessary in order to secure or protect the District's rights hereunder, and in such event the Authority hereby agrees to cooperate fully with the District and to take such action necessary to effect the substitution of the District for the Authority in such action or proceedings if the District shall so request.

Section 4.7. Rates and Charges.

(a) Covenant Regarding Gross Revenues. The District shall, to the extent permitted by law, fix, prescribe, revise and collect rates, fees and charges for the services and commodities furnished by the Wastewater Enterprise during each Fiscal Year, which are at least sufficient, after making allowances for contingencies and error in the estimates, to yield Gross Revenues which are sufficient to pay the following amounts in the following order of priority:

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

(ii) The Installment Payments and the principal of and interest on (a) any Parity Obligations as they become due and payable during such Fiscal Year, without preference or priority, except to the extent such Installment Payments or such principal and interest on any Parity Obligations are payable from the proceeds of the Bonds or Parity Obligations, or from any other source of legally available funds of the District which have been deposited with the Trustee for such purpose prior to the commencement of such Fiscal Year;

(iii) All amounts, if any, required to restore the balance in the Reserve Fund to the full amount of the Reserve Requirement, but only to the extent that the diminution of the Reserve Fund resulted from Installment Payments being in an amount less than the corresponding amount called for in Exhibit A; and

(iv) All Additional Payments and other payments required to meet any other obligations of the District which are charges, liens, encumbrances upon, or which are otherwise payable, from Gross Revenues during such Fiscal Year, including payments with respect to Subordinate Obligations.

(b) Covenant Regarding Net Revenues. In addition, the District shall, to the extent permitted by law, fix, prescribe, revise and collect rates, fees and charges for the services and commodities furnished by the Wastewater Enterprise during each Fiscal Year which are reasonably fair and nondiscriminatory and which are sufficient to yield Adjusted Annual Net Revenues for such Fiscal Year equal to at least the Coverage Requirement for such Fiscal Year. The District may make adjustments from time to time in such fees and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates, fees and charges then in effect unless the Adjusted Annual Net Revenues from such reduced rates, fees and charges are estimated to be sufficient to meet the requirements of this section.

(c) Rate Stabilization Fund. There is hereby created a separate fund to be known as the "Rate Stabilization Fund," to be funded in the amount of the RSF Requirement, and held, replenished and maintained by the District. The District hereby agrees to deposit all available surplus moneys annually in the Rate Stabilization Fund as necessary to maintain a balance in the Rate Stabilization Fund at least equal to the RSF Requirement. The District may at any time withdraw from the Rate Stabilization Fund any money therein for deposit in the Utility Fund or Bond Fund; provided, that any such deposits or withdrawals may be made up to and including the date that is one hundred twenty (120) days after the end of the Fiscal Year or twelve (12) calendar month period for which such deposit or withdrawal will be taken into account in determining Adjusted Annual Revenues; and provided further, that no deposit of Net Revenues shall be made into the Rate Stabilization Fund to the extent that such deposit would prevent the District from meeting the Coverage Requirement in any Fiscal Year or twelve (12) calendar month period.

Section 4.8. Superior and Subordinate Obligations. The District shall not issue or incur any additional bonds or other obligations during the Term of this Installment Sale Agreement having any priority in payment of principal or interest out of the Gross Revenues or the Net Revenues over the Installment Payments. The District may at any time execute any Subordinate Obligations payable as provided in Section 4.9; provided that (i) no Event of Default has occurred and is continuing, (ii) the provisions of Section 4.9 relating to the conditions for the execution of Parity Obligations are satisfied for the execution of such Subordinate Obligation, and (iii) for purposes of Subordinate Obligations only, the

first paragraph of the definition of Coverage Requirement shall be defined as (i) one hundred five percent (105%) of the sum of the Annual Debt Service plus the Subordinate Annual Debt Service for such Fiscal Year or twelve (12) calendar month period and (ii) one hundred percent (100%) of all obligations of the District payable in such Fiscal Year or twelve (12) calendar month period.

Nothing contained herein shall limit the ability of the District to execute obligations payable from a lien on Net Revenues that is subordinate to the lien of Net Revenues for both Parity Obligations and Subordinate Obligations contained herein.

Section 4.9. Issuance of Parity Obligations. The District shall have the right from time to time to issue or incur additional Parity Obligations, upon such terms and conditions as the District shall deem advisable, but only upon compliance with the following conditions which are hereby made conditions precedent to the issuance of Parity Obligations:

(a) There shall be on file with the District either:

(1) A Certificate of the District demonstrating that, during the last audited Fiscal Year or any twelve (12) calendar month period during the immediately preceding eighteen (18) calendar month period, the Adjusted Annual Net Revenues were at least equal to the Coverage Requirement for all outstanding Parity Obligations plus the Parity Obligation proposed to be executed; provided, that for the purpose of providing this Certificate, the District may adjust the foregoing Adjusted Annual Net Revenues to reflect Additional Revenues; or

(2) An Engineer's Report that the estimated Adjusted Annual Net Revenues for each of the five (5) Fiscal Years next following the earlier of (i) the end of the period during which interest on the Parity Obligation proposed to be executed is to be capitalized or, if no interest is capitalized, the Fiscal Year in which the Parity Obligation proposed to be executed is executed, or (ii) the date on which substantially all Projects financed with the Parity Obligation proposed to be executed plus all Projects financed with all existing Parity Obligations are expected to commence operations, will be at least equal to the Coverage Requirement for such period; provided, that for the purpose of providing this Engineer's Report, the Independent Engineer may adjust the foregoing estimated Adjusted Annual Net Revenues to reflect: (a) An allowance for Net Revenues that are estimated to be derived from any increase in the rates, fees and charges for wastewater service in effect and being charged or from any increase in the rates, fees and charges for wastewater service that are expected to be charged; and (b) An allowance for Net Revenues that are estimated to be derived from customers of the Wastewater Enterprise anticipated to be served by the additions, betterments or improvements to the Wastewater Enterprise to be financed by the Parity Obligation proposed to be executed;

(b) A Certificate of the District that the Project to be acquired and constructed with the proceeds of such Parity Obligation is technically feasible and the estimated cost of the acquisition and construction thereof is reasonable, and (after giving effect to the completion of all uncompleted Projects) the rates, fees and charges estimated to be fixed and prescribed for the wastewater service for each Fiscal Year from the Fiscal Year in which such Parity Obligation is executed to and including the first complete Fiscal Year after the latest Date of Operation of any uncompleted Project are economically feasible and reasonably considered necessary based on projected operations for such period;

(c) At the time of such execution of Parity Obligations, no Event of Default shall have occurred and be continuing; and

(d) Upon the issuance of such Parity Obligations a reserve account shall be established for such Parity Obligations in an amount at least equal to is a sum at least equal to the Reserve Requirement of such Parity Obligations.

Section 4.10. Additional Payments. In addition to the Installment Payments, the District shall pay when due all costs and expenses incurred by the Authority and the Trustee to comply with the provisions of the Indenture, including without limitation all Costs of Issuance (to the extent not paid from amounts on deposit in the Costs of Issuance Fund) and amounts payable to the federal government pursuant to Section 6.08 of the Indenture, and shall pay to the Trustee upon request therefor all compensation for fees due to the Trustee and all of its costs and expenses payable as a result of the performance of and compliance with its duties hereunder or under the Indenture or any related documents, together with all amounts required to indemnify the Trustee pursuant to Section 6.3 hereof or Section 8.06 of the Indenture, and all costs and expenses of the Authority's and Trustee's attorneys, auditors, engineers and accountants. The rights of the Trustee and the obligations of the District under this Section 4.10 shall survive the termination of this Installment Sale Agreement.

Section 4.11. Payment of Rebatable Amounts. The District agrees to furnish all information to, and cooperate fully with, the Authority, the Trustee and their respective officers, employees, agents and attorneys, in order to assure compliance with the provisions of Section 6.08 of the Indenture. In the event that the Authority or the Trustee shall determine, pursuant to Section 6.08 of the Indenture, that any amounts are due and payable to the United States of America thereunder and that neither the Authority nor the Trustee has on deposit an amount of available moneys (excluding moneys on deposit in the funds and accounts established for the payment of the principal of or interest or redemption premium, if any, on the Bonds) to make such payment, the Authority or the Trustee shall promptly notify the District of such fact. Upon receipt of any such notice, the District shall promptly pay to the United States of America from any source of legally available funds of the Wastewater Enterprise, the amounts determined by the Authority or the Trustee to be due and payable to the United States of America under such Section 6.08.

Section 4.12. Contract Resource Obligations. The District may at any time enter into one or more Contract Resource Obligations for the acquisition, from facilities to be constructed, of wastewater services or other capacity or service relating to the Wastewater Enterprise. The District may determine that, and may agree under a Contract Resource Obligation to provide that, all payments under that Contract Resource Obligation (including payments prior to the time that wastewater services or other capacity or service is being provided, or during a suspension or after termination of supply or service) shall be Operation and Maintenance Costs if the following requirements are met at the time such a Contract Resource Obligation is entered into:

(1) No Event of Default has occurred and is continuing.

(2) There shall be on file with the District an Engineer's Report stating that (i) the payments to be made by the District in connection with the Contract Resource Obligation are reasonable for the services or capacity rendered; (ii) the source of any new capacity, and any facilities to be constructed to provide the capacity, are sound from a wastewater or other service planning standpoint, are technically and economically feasible in accordance with prudent utility practice, and are likely to provide capacity or

service no later than a date set forth in the Engineer's Report; and (iii) the Adjusted Annual Net Revenues (further adjusted by the Independent Engineer's estimate of the payments to be made in accordance with the Contract Resource Obligation) for the five (5) Fiscal Years following the year in which the Contract Resource Obligation is incurred, as such Adjusted Annual Net Revenues are estimated by the Independent Engineer in accordance with the provisions of and adjustments permitted in Section 4.9, will be at least equal to the Coverage Requirement.

Payments required to be made under Contract Resource Obligations shall not be subject to acceleration.

Nothing in this section shall be deemed to prevent the District from entering into other agreements for the acquisition of water or other commodity or service from existing facilities and from treating those payments as Operation and Maintenance Costs; and nothing in this section shall be deemed to prevent the District from entering into other agreements for the acquisition of water or other commodity or service from facilities to be constructed and from agreeing to make payments with respect thereto, such payments constituting a lien and charge on Net Revenues subordinate to that of the Parity Obligations.

ARTICLE V

MAINTENANCE; TAXES; INSURANCE; AND OTHER MATTERS

Section 5.1. Maintenance, Utilities, Budget, Taxes and Assessments. Throughout the Term of this Installment Sale Agreement, all improvement, repair and maintenance of the Wastewater Enterprise shall be the responsibility of the District, and the District shall pay for or otherwise arrange for the payment of all Operation and Maintenance Costs and other services supplied to the Wastewater Enterprise, which may include, without limitation, janitor service, security, power, gas, telephone, light, heating, and all other utility services, and shall pay for or otherwise arrange for the payment of the cost of the repair and replacement of the Wastewater Enterprise resulting from ordinary wear and tear. On or before the first day of each Fiscal Year, the District will file with the Trustee a budget setting forth the estimated Operation and Maintenance Costs of the Wastewater Enterprise for such Fiscal Year. The Trustee shall not be required to review, and shall not be deemed to have knowledge of, the contents of such budget, it being understood that the Trustee shall receive and hold such budget as repository for examination and copying by any Owner at such Owner's expense.

The District shall also pay or cause to be paid all taxes and assessments of any type or nature, if any, charged to the Authority, the Trustee or the District affecting any Wastewater Enterprise or the respective interests or estates therein; *provided, however*, that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the District shall be obligated to pay only such installments as are required to be paid during the Term of this Installment Sale Agreement as and when the same become due.

The District may, at the District's expense and in its name, in good faith contest any such taxes, assessments, utility and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless the Authority shall notify the District that, in its opinion, by nonpayment of any such items, the interest of the Authority hereunder or under the Indenture will be materially adversely

affected, in which event the District shall promptly pay such taxes, assessments or charges or provide the Authority with full security against any loss which may result from nonpayment, in form satisfactory to the Authority.

Section 5.2. Operation of Wastewater Enterprise. The District covenants and agrees to operate the Wastewater Enterprise in an efficient and economical manner and to operate, maintain and preserve the Wastewater Enterprise in good repair and working order. The District covenants that, in order to fully preserve and protect the priority and security of the Bonds, the District shall pay from the Gross Revenues and discharge all lawful claims for labor, materials and supplies furnished for or in connection with the Wastewater Enterprise which, if unpaid, may become a lien or charge upon the Gross Revenues or the Net Revenues prior or superior to the lien granted hereunder, or which may otherwise impair the ability of the District to pay the Installment Payments in accordance herewith.

Section 5.3. Public Liability and Property Damage Insurance. The District shall maintain or cause to be maintained, throughout the Term of this Installment Sale Agreement, but only if and to the extent available at reasonable cost from reputable insurers, a standard comprehensive general insurance policy or policies in protection of the Authority, the District, the Trustee, and their respective members, officers, agents and employees. Said policy or policies shall provide for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the operation of the Wastewater Enterprise. Said policy or policies shall provide coverage in such liability limits and shall be subject to such deductibles as shall be customary with respect to works and property of a like character. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance coverage carried by the District, and may be maintained in whole or in part in the form of self-insurance by the District, subject to the provisions of Section 5.5, or in the form of the participation by the District in a joint powers agency or other program providing pooled insurance. The proceeds of such liability insurance shall be applied toward extinguishment or satisfaction of the liability with respect to which such proceeds shall have been paid.

Section 5.4. Casualty Insurance. The District shall procure and maintain, or cause to be procured and maintained, throughout the Term of this Installment Sale Agreement, but only in the event and to the extent available from reputable insurers at reasonable cost, casualty insurance against loss or damage to any improvements constituting any part of the Wastewater Enterprise, covering such hazards as are customarily covered with respect to works and property of like character. Such insurance may be subject to deductible clauses which are customary for works and property of a like character. Such insurance may be maintained as part of or in conjunction with any other casualty insurance carried by the District and may be maintained in whole or in part in the form of self-insurance by the District, subject to the provisions of Section 5.5, or in the form of the participation by the District in a joint powers agency or other program providing pooled insurance. All amounts collected from insurance against accident to or destruction of any portion of the Wastewater Enterprise shall be Gross Revenues and shall be used to repair, rebuild or replace such damaged or destroyed portion of the Wastewater Enterprise or otherwise as permitted by the Installment Sale Agreement.

Section 5.5. Insurance Premiums; Self-Insurance. The District shall pay or cause to be paid when due the premiums for all insurance policies required by this Installment Sale Agreement. The Trustee shall not be responsible for the sufficiency of any insurance herein required and shall be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss. In the event that any insurance required pursuant to Sections 5.3 or 5.4 shall be provided in the form of self-

insurance, the District shall file with the Trustee annually, within ninety (90) days following the close of each Fiscal Year, a statement of an independent actuarial consultant identifying the extent of such self-insurance and stating the determination that the District maintains sufficient reserves with respect thereto. In the event that any such insurance shall be provided in the form of self-insurance by the District, the District shall not be obligated to make any payment with respect to any insured event except from Net Revenues or from such reserves.

Section 5.6. Eminent Domain. Any amounts received as awards as a result of the taking of all or any part of the Wastewater Enterprise by the lawful exercise of eminent domain shall be set aside and shall be used for the acquisition or construction of improvements and extension of the Wastewater Enterprise or otherwise as permitted by this Installment Sale Agreement, and with respect to which the Trustee shall have a security interest.

Section 5.7. Records and Accounts. The District shall keep proper books of record and accounts of the Wastewater Enterprise, separate from all other records and accounts, in which complete and correct entries shall be made of all transactions relating to the Wastewater Enterprise. Said books shall, upon prior request, be subject to the reasonable inspection by the Owners of not less than ten percent (10%) in aggregate principal amount of the Outstanding Bonds, or their representatives authorized in writing. The District shall cause the books and accounts of the Wastewater Enterprise to be audited annually by an Independent Certified Public Accountant, not more than one hundred eighty (180) days after the close of each Fiscal Year, and shall make a copy of such report available for inspection by the Bond Owners at the office of the District.

Section 5.8. Private Activity Bond Limitation. The District and the Authority shall assure that the proceeds of the Bonds are not so used as to cause the Bonds to satisfy the private business tests of section 141(b) of the Code, or the private loan financing test of section 141(c) of the Code.

Section 5.9. Maintenance of Tax-Exemption. The District and the Authority shall take all actions necessary to assure the exclusion of interest on the Bonds from the gross income of the Owners of the Bonds to the same extent as such interest is permitted to be excluded from gross income under the Code as in effect on the date of issuance of the Bonds.

Section 5.10. Federal Guarantee Prohibition. The District and the Authority shall not take any action or permit or suffer any action to be taken if the result of the same would be to cause the Bonds to be “federally guaranteed” within the meaning of section 149(b) of the Code.

Section 5.11. Continuing Disclosure. The District hereby covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate. Notwithstanding any other provision of this Installment Sale Agreement, failure of the District to comply with the Continuing Disclosure Certificate shall not be an Event of Default hereunder; however, any Participating Underwriter or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the District to comply with its obligations under this Section 5.11.

Section 5.12. Report to California Debt Advisory Commission. In accordance with Section 6599.1(c) of the Government Code, the District shall notify the California Debt Advisory Commission by mail, postage prepaid, within ten (10) days if either (i) the Authority fails to pay principal and interest

payable on the Bonds pursuant to the Indenture on any scheduled payment date or (ii) funds representing all or a portion of the Reserve Requirement are withdrawn from the Reserve Fund to pay principal and interest payable pursuant to the Indenture.

ARTICLE VI

DISCLAIMER OF WARRANTIES; ACCESS

Section 6.1. Disclaimer of Warranties. The Authority and the Trustee make no warranty or representation, either express or implied, as to the value, design, condition, merchantability or fitness for any particular purpose or fitness for the use contemplated by the District of the Project, or any other representation or warranty with respect to the Project. In no event shall the Authority or the Trustee be liable for incidental, indirect, special or consequential damages in connection with or arising out of this Installment Sale Agreement or the Indenture for the existence, furnishing, functioning or District's use of the Project.

Section 6.2. Access to the Wastewater Enterprise. The District agrees that the Authority and the Trustee, and any duly authorized representative thereof, shall have the right (but not a duty or obligation) at all reasonable times to enter upon and to examine and inspect the Wastewater Enterprise. The District further agrees that the Authority and the Trustee, and any duly authorized representative thereof, shall have such rights of access to the Wastewater Enterprise as may be reasonably necessary to cause the proper maintenance of the Wastewater Enterprise in the event of failure by the District to perform its obligations hereunder.

Section 6.3. Release and Indemnification Covenants. The District shall and hereby agrees to indemnify and save the Authority and the Trustee and their respective members, officers, agents, employees, successors and assigns harmless from and against all claims, losses and damages, including legal fees and expenses, to the extent arising out of (a) the use, maintenance, condition or management of, or from any work or thing done on the Wastewater Enterprise by the District, (b) any breach or default on the part of the District in the performance of any of its obligations under this Installment Sale Agreement, (c) any negligence or willful misconduct of the District or of any of its agents, contractors, servants, employees or licensees with respect to the Wastewater Enterprise, (d) any act or negligence of any sublessee of the District with respect to the Wastewater Enterprise, (e) the Acquisition of the Project, (f) the presence on, under or about, or release from, the Wastewater Enterprise of any substance, material or waste which is, or which becomes, regulated or classified as hazardous or toxic under State, federal or local law, or (g) the offer, sale and issuance of the Bonds. No indemnification is made under this Section 6.3 or elsewhere in this Installment Sale Agreement for adjudicated willful misconduct or active or passive gross negligence by the Authority or the Trustee, or their respective members, officers, agents, employees, successors or assigns. The rights of the Trustee and the obligations of the District under this Section 6.3 shall survive the termination of this Installment Sale Agreement.

Section 6.4. Non-Liability of Authority for Wastewater Enterprise Obligations. The Authority and its successor and assigns shall have no obligation and shall incur no liabilities or debts whatsoever for the obligations, liabilities and debts of the District incurred in connection with the Wastewater Enterprise.

ARTICLE VII

ASSIGNMENT, SALE AND AMENDMENT

Section 7.1. Assignment by the Authority. The Authority's rights (but none of its duties or obligations) under this Installment Sale Agreement, including the right to receive and enforce payment of the Installment Payments to be made by the District under this Installment Sale Agreement have been pledged and assigned to the Trustee pursuant to the Indenture, to which pledge and assignment the District hereby consents.

Section 7.2. Assignment by the District. Except as provided in Section 7.1, this Installment Sale Agreement may not be assigned by the District.

Section 7.3. Sale of Wastewater Enterprise. The District will only sell, transfer or otherwise dispose of any of the facilities of the Wastewater Enterprise or any real or personal property comprising a part of the Wastewater Enterprise consistent with one or more of the following limitations:

(1) The District in its discretion may carry out such a sale, transfer or other disposition (each, as used in this section, a "transfer") if the facilities or property of the Wastewater Enterprise transferred are not material to the operation of the Wastewater Enterprise, or shall have become unserviceable, inadequate, obsolete or unfit to be used in the operation of the Wastewater Enterprise, or are no longer necessary, material or useful to the operation of the Wastewater Enterprise; or

(2) The District in its discretion may carry out such a transfer if the aggregate depreciated cost value of the facilities or property of the Wastewater Enterprise transferred in any one Fiscal Year comprises no more than ten per cent (10%) of the total assets of the Wastewater Enterprise; or

(3) The District in its discretion may carry out such a transfer if the District receives from the transferee an amount equal to the fair market value of the facilities or property of the Wastewater Enterprise transferred (as used in this subparagraph, "fair market value" means the most probable price that a property should bring in a competitive and open market under all conditions requisite to a fair sale, with a willing buyer and a willing seller each acting prudently and knowledgeably and assuming that the price is not affected by coercion or undue stimulus) and if the proceeds of such transfer are used (i) to promptly prepay, or irrevocably set aside for the prepayment of, first the Parity Payments and, thereafter, the Subordinate Payments, and/or (ii) to provide for the cost of additions, betterments or improvements to the Wastewater Enterprise; provided, that before any such transfer is made under this subparagraph, (A) the District shall obtain an Engineer's Report that upon such transfer and the use of the proceeds thereof as proposed by the District, the remaining facilities or property of the Wastewater Enterprise will retain their operational integrity and the estimated Adjusted Annual Net Revenues during each of the five (5) Fiscal Years next following the Fiscal Year in which the transfer is to occur will be at least equal to the estimated Coverage Requirement in each of such Fiscal Years, taking into account (w) the estimated reduction in Net Revenues resulting from such transfer, (x) the use of the proceeds of such transfer for the prepayment of first, the Parity Payments and thereafter, the Subordinate Payments, (y) the estimated additional Gross Revenues from customers anticipated to be served by any additions, betterments or improvements to the Wastewater Enterprise financed by the portion of the proceeds received from such transfer, and (z) any other adjustment permitted in the preparation of an Engineer's Report under Section 4.9, or (B) the District shall obtain

confirmation from the Rating Agencies to the effect that the ratings then in effect will not be reduced or withdrawn upon such transfer.

Section 7.4. Amendment of Installment Sale Agreement. The District and the Authority shall have the right to modify or amend this Installment Sale Agreement without the consent of any of the Bond Owners or any of the owners of Parity Obligations, but only if such amendment or modification does not cause interest represented by the Bonds to be includable in gross income for federal income tax purposes in the opinion of Bond Counsel, and only if such amendment or modification does not materially adversely affect the interests of the Owners of the Bonds or the owners of any Parity Obligations in the opinion of Bond Counsel, and only if such amendment or modification is for any one or more of the following purposes-

(a) to provide for the issuance of Parity Obligations pursuant to Section 4.9;

(b) to add to the covenants and agreements of the District contained in this Installment Sale Agreement, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or power herein reserved to or conferred upon the District;

(c) to cure any ambiguity, or to cure, correct or supplement any defective provision contained herein, or in any other respect whatsoever as the Authority, the Trustee and the District may deem necessary or desirable; or

(d) to amend any provision thereof for the purpose of complying with the applicable requirements of the Code.

ARTICLE VIII

EVENTS OF DEFAULT

Section 8.1. Events of Default Defined. The following events shall be Events of Default hereunder:

(a) Failure by the District to pay any Installment Payment when and as the same become due and payable hereunder.

(b) Failure by the District to pay any Additional Payment when due and payable hereunder, and the continuation of such failure for a period of ten (10) days.

(c) Failure by the District to observe and perform any covenant, condition or agreement on its part to be observed or performed, other than as referred to in the preceding clauses (a) or (b), for a period of sixty (60) days after written notice specifying such failure and requesting that it be remedied has been given to the District by the Authority or the Trustee; *provided, however*, that if the District shall notify the Authority and the Trustee that in its reasonable opinion the failure stated in the notice can be corrected, but not within such 60-day period, such failure shall not constitute an event of default hereunder if the District shall commence to cure such failure within such sixty (60) day period and thereafter diligently and in good faith cure such failure in a reasonable period of time.

(d) The filing by the District of a voluntary petition in bankruptcy, or failure by the District promptly to lift any execution, garnishment or attachment, or adjudication of the District as a bankrupt, or assignment by the District for the benefit of creditors, or the entry by the District into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of a petition applicable to the District in any proceedings instituted under the provisions of the Federal Bankruptcy Code, as amended, or under any similar acts which may hereafter be enacted.

(e) The occurrence and continuation of any event of default under and as defined in the instruments authorizing the issuance of any Parity Obligations.

Section 8.2. Remedies on Default. Whenever any Event of Default shall have happened and be continuing, the Trustee as assignee of the Authority shall have the right, subject to all of the rights of the Insurer set forth in Article XII of the Indenture, at its option and without any further demand or notice, but subject in all respects to the provisions of Article VIII of the Indenture, to:

(a) declare all principal components of the unpaid Installment Payments, together with accrued interest thereon at the net effective rate of interest per annum then borne by the Outstanding Bonds from the immediately preceding Interest Payment Date on which payment was made, to be immediately due and payable, whereupon the same shall immediately become due and payable;

(b) take whatever action at law or in equity may appear necessary or desirable to collect the Installment Payments then due or thereafter to become due during the Term of this Installment Sale Agreement, or enforce performance and observance of any obligation, agreement or covenant of the District under this Installment Sale Agreement; and

(c) as a matter of right, in connection with the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and the Bond Owners hereunder, cause the appointment of a receiver or receivers of the Gross Revenues and other amounts pledged hereunder, with such powers as the court making such appointment shall confer.

The provisions of the preceding clause (a), however, are subject to the condition that if, at any time after the principal components of the unpaid Installment Payments shall have been so declared due and payable pursuant to the preceding clause (a), and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the District shall deposit with the Trustee a sum sufficient to pay all principal components of the Installment Payments coming due prior to such declaration and all matured interest components (if any) of the Installment Payments, with interest on such overdue principal and interest components calculated at the rate of ten percent (10%) per annum and the reasonable fees and expenses of the Trustee (including any reasonable fees and expenses of its attorneys), and any and all other defaults known to the Trustee (other than in the payment of the principal and interest components of the Installment Payments due and payable solely by reason of such declaration) shall have been made good, then, and in every such case, with the written consent of the Trustee, shall rescind and annul such declaration and its consequences. However, 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. As provided in Section 8.6, the Trustee shall be required to exercise the remedies provided herein in accordance with the Indenture.

Section 8.3. No Remedy Exclusive. No remedy herein conferred upon or reserved to the Authority is intended to be exclusive and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Installment Sale Agreement or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Authority to exercise any remedy reserved to it in this Article VIII it shall not be necessary to give any notice, other than such notice as may be required in this Article VIII or by law.

Section 8.4. Agreement to Pay Attorneys' Fees and Expenses. In the event either party to this Installment Sale Agreement should default under any of the provisions hereof and the nondefaulting party, the Trustee or the Owner of any Bonds should employ attorneys or incur other expenses for the collection of moneys or the enforcement or performance or observance of any obligation or agreement on the part of the defaulting party herein contained, the defaulting party agrees that it will on demand therefor pay to the nondefaulting party, the Trustee or such Owner, as the case may be, the reasonable fees of such attorneys and such other expenses so incurred.

Section 8.5. No Additional Waiver Implied by One Waiver. In the event any agreement contained in this Installment Sale Agreement should be breached by either party and thereafter waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder.

Section 8.6. Trustee and Bond Owners to Exercise Rights. Such rights and remedies as are given to the Authority under this Article VIII have been assigned by the Authority to the Trustee under the Indenture, to which assignment the District hereby consents. Such rights and remedies shall be exercised by the Trustee, subject to all of the rights of the Insurer set forth in Article XII of the Indenture, and the Owners of the Bonds as provided in the Indenture.

Section 8.7. Rights of the Owners of Parity Obligations. Notwithstanding anything in this Article VIII to the contrary, it is hereby acknowledged and agreed that the rights of the Trustee and the Bond Owners hereunder in and to the Net Revenues and the Wastewater Enterprise shall be exercised on a parity and proportionate basis with the rights of the owners of any Parity Obligations and any fiduciary acting for the benefit of such owners. The provisions of this Article VIII, and the provisions of any instruments authorizing the issuance of any Parity Obligations, shall be construed in accordance with the foregoing sentence.

ARTICLE IX

PREPAYMENT OF INSTALLMENT PAYMENTS

Section 9.1. Security Deposit. Notwithstanding any other provision of this Installment Sale Agreement, the District may on any date secure the payment of Installment Payments in whole or in part by irrevocably depositing with the Trustee an amount of cash which, together with amounts on deposit in the Bond Fund, the accounts therein and the Reserve Fund, is either (a) sufficient to pay all such Installment Payments, including the principal and interest components thereof, in accordance with the Installment Payment schedule set forth in Exhibit A, or (b) invested in whole or in part in non-callable Federal

Securities in such amount as will, in the written opinion of an Independent Certified Public Accountant, addressed to the Authority and the Trustee, together with interest to accrue thereon and together with any cash which is so deposited, be fully sufficient to pay all such Installment Payments when due pursuant to Section 4.4(a) or when due on any optional prepayment date pursuant to Section 9.2, as the District shall instruct at the time of said deposit. In the event of a security deposit pursuant to this Section 9.1 with respect to all of the Installment Payments, and provided that other amounts due and payable by the District hereunder have been paid in full, all obligations of the District under this Installment Sale Agreement, and all security provided by this Installment Sale Agreement for said obligations, shall cease and terminate, excepting only the obligation of the District to make, or cause to be made, all of such Installment Payments from such security deposit, and the obligation of the District to compensate and indemnify the Trustee pursuant to Sections 4.10 and 6.3. Said security deposit shall be deemed to be and shall constitute a special fund for the payment of Installment Payments in accordance with the provisions of this Installment Sale Agreement.

Section 9.2. Optional Prepayment. The District may exercise its option to prepay the principal components of the Installment Payments in whole, or in part among Installment Payment Dates on a pro rata basis in integral multiples of \$5,000, on any date on or after December 1, 20__, by paying a prepayment price equal to the aggregate principal components of the Installment Payments to be prepaid, together with the interest component of the Installment Payment required to be paid on or accrued to such date and together with the premium (if any) then required to be paid upon the corresponding redemption of the Bonds pursuant to Section 4.01(b)(ii) of the Indenture. Such prepayment price shall be deposited by the Trustee in the Redemption Fund to be applied to the redemption of Bonds pursuant to Section 4.01(b)(ii) of the Indenture. The District shall give the Trustee written notice of its intention to exercise its option not less than forty-five (45) days in advance of the date of exercise.

Section 9.3. Credit for Amounts on Deposit. In the event of prepayment of the principal components of the Installment Payments in full under this Article IX, such that the Indenture with respect to the Bonds shall be discharged by its terms as a result of such prepayment, and upon payment in full of all Additional Payments and other amounts then due and payable hereunder, all available amounts then on deposit in the funds and accounts established under the Indenture shall be credited towards the amounts then required to be so prepaid.

ARTICLE X

MISCELLANEOUS

Section 10.1. Further Assurances. The District agrees that it will execute and deliver any and all such further agreements, instruments, financing statements or other assurances as may be reasonably necessary or requested by the Authority or the Trustee to carry out the intention or to facilitate the performance of this Installment Sale Agreement, including, without limitation, to perfect and continue the security interests herein intended to be created.

Section 10.2. Amendment of Indenture. The Authority covenants that it shall take no action to amend or supplement the Indenture in any manner without obtaining the prior written consent of the District to such amendment or supplement.

convenience of reference and shall not affect the meaning, construction or effect of this Installment Sale Agreement. All references herein to "Articles," "Sections" and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Installment Sale Agreement; the words "herein," "hereof," "hereby," "hereunder" and other words of similar import refer to this Installment Sale Agreement as a whole and not to any particular Article, Section or subdivision hereof; and words of the masculine gender shall mean and include words of the feminine and neuter genders.

Section 10.9. Execution of Counterparts. This Installment Sale Agreement may be executed in any number of counterparts, each of which shall for all purposes be deemed to be an original and all of which shall together constitute but one and the same instrument.

Section 10.10. Waiver of Personal Liability. No member of the Board of Directors of the District, officer, agent or employee of the District shall be individually or personally liable for the payment of Installment Payments or Additional Payments or be subject to any personal liability or accountability by reason of this Installment Sale Agreement; but nothing herein contained shall relieve any such member of the Board of Directors of the District, officer, agent or employee from the performance of any official duty provided by law or by this Installment Sale Agreement.

* * * * *

IN WITNESS WHEREOF, the Authority and the District have caused this Wastewater Installment Sale Agreement to be executed in their respective names by their duly authorized officers, all as of the date first above written.

DISCOVERY BAY PUBLIC FINANCING AUTHORITY,
as Seller

By: _____
Chairperson

Attest:

By: _____
Executive Director

TOWN OF DISCOVERY BAY
COMMUNITY SERVICES DISTRICT,
as Purchaser

By _____
President

Attest:

By: _____
General Manager

EXHIBIT A

SCHEDULE OF INSTALLMENT PAYMENTS

*The Installment Payment Date shall be not less than five (5) Business Days prior to each December 1 and June 1 during the Term of this Installment Sale Agreement, commencing not less than five (5) Business Days prior to December 1, 2012.

EXHIBIT B

DESCRIPTION OF PROJECT

The entire wastewater collection, treatment and disposal system owned or operated by the District, including, but not limited to, any and all properties and assets, real and personal, tangible and intangible, of the District, now or hereafter existing, used or pertaining to the collection, production, treatment and disposal system, including all all pipes, valves, machinery and all other appurtenances necessary, useful or convenient for the collection, treatment and disposal of wastewater, and any necessary lands, rights of way and other real or personal property useful in connection therewith, and all additions, extensions, expansions, improvements and betterments thereto and equippings thereof., as modified and improved from time to time.