

SANTA YNEZ COMMUNITY SERVICES DISTRICT

MEMORANDUM

TO: Board of Directors
FROM: Jose Acosta, General Manager
Wendy Berry, Secretary/Treasurer
DATE: June 16, 2021
SUBJECT: Review, Discuss, and Approval of Resolution 21-09, Financing for Horizon Drive Mainline Extension Project

Recommendation:

Review, discuss and approve Resolution 21-09, Resolution of the Board of Directors of the Santa Ynez Community Services District approving installment sale financing arrangement, authorizing the execution and delivery of an installment sale agreement, and authorizing and directing certain actions in connection with the financing, acquisition and construction of the Horizon Drive mainline extension project.

Fiscal Implications:

The financing agreement for completion of the Horizon Drive mainline extension project is in the amount of \$1,300,000.

Alternatives Considered:

None

History:

At the November 18, 2020, meeting the Board directed staff to proceed with pursuing two funding options, Clean Water State Revolving Fund (CWSRF) and California Special District Association (CSDA) loan. Staff continued the application process and documentation submittals for the CWSRF loan and was placed on their ranking list for approved funding. The CWSRF loan process requirements added additional costs to the application process. The Board directed staff to engage CSDA with financing options available through them.

The CSDA loan option would be financed by Municipal Finance Corporation. The following information consists of estimates that have been provided by the Corporation, which have been provided to the District in good faith:

- (A) True interest cost of the Installment Sale Agreement: 2.93%
- (B) Finance charge of the Installment Sale Agreement (sum of all costs of issuance and fees/charges paid to third parties): \$0

(C) Net proceeds to be received (net of finance charges, reserves and capitalized interest, if any): \$1,300,000

(D) Total payment amount through maturity: \$1,736,317.80

The agreement must be signed and executed within 60 days of receipt, for funds to be dispersed. Funds will be dispersed after the signed agreement has been executed and submitted to Municipal Finance Corporation.

Attached for Board review and discussion are District Resolution 21-09 and the Installment Sales Agreement with Municipal Finance Corporation. The Board will provide staff with direction on proceeding with execution of accepting the loan agreement and authorizing staff to sign and accept loan documents.

Attachments:

- District Resolution 21-09
- Installment Sales Agreement

RESOLUTION NO. 21-09

RESOLUTION OF THE BOARD OF DIRECTORS OF THE SANTA YNEZ COMMUNITY SERVICES DISTRICT APPROVING INSTALLMENT SALE FINANCING ARRANGEMENT, AUTHORIZING THE EXECUTION AND DELIVERY OF AN INSTALLMENT SALE AGREEMENT, AND AUTHORIZING AND DIRECTING CERTAIN ACTIONS IN CONNECTION WITH THE FINANCING, ACQUISITION AND CONSTRUCTION OF THE HORIZON DRIVE MAINLINE EXTENSION PROJECT

WHEREAS, the Santa Ynez Community Services District (the "District") is a community services district duly organized and existing under and pursuant to the laws of the State of California; and

WHEREAS, the District desires to provide for financing in the approximate amount of \$1,300,000.00 for the acquisition and construction of the Horizon Drive sewer main extension project (the "Project"); and

WHEREAS, Municipal Finance Corporation (the "Corporation") has proposed a cost-effective twenty year installment sale financing arrangement at a 2.93% interest rate; and

WHEREAS, in accordance with California Government Code Section 5852.1, the Board of Directors has obtained and disclosed the information set forth in Exhibit A hereto;

NOW, THEREFORE, it is resolved by the Board of Directors of the Santa Ynez Community Services District as follows:

SECTION 1. Installment Sale. The Board of Directors hereby approves the installment sale financing arrangement to finance the Project (the "Installment Sale") on the terms set forth in the Installment Sale Agreement with the Corporation presented at this meeting (the "Installment Sale Agreement"). The Board of Directors hereby approves the Installment Sale Agreement and authorizes and directs the President of the Board of Directors, the General Manager, or a designee authorized by the President or General Manager in writing to execute and deliver the Installment Sale Agreement in the form substantially as presented at this meeting, subject to approval as to final form by the District's legal counsel.

SECTION 2. Attestations. The Secretary of the Board or other appropriate District officer is hereby authorized and directed to attest the signature of the President of the Board of Directors, the General Manager, or such other person or persons as may have been designated by the President of the Board of Directors or the General Manager, and to affix and attest the seal of the District, as may be required or appropriate in connection with the execution and delivery of the Installment Sale Agreement.

SECTION 3. Authorization to Establish Project Fund. The Board of Directors hereby approves the establishment of a special fund into which the proceeds of the financing are deposited for the purpose of paying the costs of the Project and authorizes and directs the President of the Board, the General Manager, or a designee authorized by the President or General Manager in writing to make appropriate arrangements to establish said special fund.

SECTION 4. Other Actions. The President of the Board of Directors, the General Manager, and

other officers of the District are each hereby authorized and directed, jointly and severally, to take any and all actions and to execute and deliver any and all documents, agreements and certificates which they may deem necessary or advisable in order to carry out, give effect to and comply with the terms of this Resolution and the Installment Sale. Such actions are hereby ratified, confirmed and approved.

SECTION 5. Reimbursement of Prior Expenditures. The District declares its official intent to be reimbursed from the proceeds of the Installment Sale approved hereby for a maximum principal amount of \$1,300,000.00 of expenditures occurring not more than sixty days prior to the adoption of this Resolution. All reimbursed expenditures will be capital expenditures as defined in Section 1.150-1(b) of the Federal Income Tax Regulations.

SECTION 6. Qualified Tax-Exempt Obligations. The Installment Sale is hereby designated as a "qualified tax-exempt obligation" within the meaning of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended (the "Code"). The District, together with all subordinate entities of the District, do not reasonably expect to issue during the calendar year in which the Installment Sale is issued more than \$10,000,000 of obligations which it could designate as "qualified tax-exempt obligations" under Section 265(b) of the Code.

SECTION 7. Effect. This Resolution shall take effect immediately upon its passage.

PASSED, APPROVED AND ADOPTED this 16th day of June, 2021, by the following vote:

AYES:

NOES:

ABSTENTIONS:

ABSENT:

Approved:

Karen Jones,
President of the Board

Attest:

Wendy Berry,
Secretary of the Board

EXHIBIT A

GOVERNMENT CODE SECTION 5852.1 DISCLOSURE

The following information consists of estimates that have been provided by the Corporation, which have been provided to the District in good faith:

- (A) True interest cost of the Installment Sale Agreement: 2.93%
- (B) Finance charge of the Installment Sale Agreement (sum of all costs of issuance and fees/charges paid to third parties): \$0
- (C) Net proceeds to be received (net of finance charges, reserves and capitalized interest, if any): \$1,300,000
- (D) Total payment amount through maturity: \$1,736,317.80

INSTALLMENT SALE AGREEMENT #21-009

THIS INSTALLMENT SALE AGREEMENT, (this "Installment Sale Agreement"), dated for convenience as of June 16, 2021, is by and between Municipal Finance Corporation, a corporation duly organized and existing under the laws of the State of California (the "Corporation"), and the Santa Ynez Community Services District, a community services district duly organized and existing under the Constitution and laws of the State of California (the "District");

WITNESSETH:

WHEREAS, the District presently owns and operates certain facilities and property for the collection, treatment and disposal of wastewater to residents within the service area of the District (as further defined herein, the "Enterprise"), and the District wishes at this time to finance the costs of constructing certain improvements to the wastewater facilities of the Enterprise (as further defined herein, the "Project"); and

WHEREAS, the Corporation has agreed to sell the Project to the District, and the District has agreed to purchase the Project from the Corporation pursuant to the terms of this Installment Sale Agreement;

NOW, THEREFORE, in consideration of the above premises and of the mutual covenants hereinafter contained and for other good and valuable consideration, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS AND EXHIBITS

SECTION 1.1. Definitions. All capitalized terms used in this Section 1.1 shall for all purposes of this Installment Sale Agreement have the meanings herein specified or as hereinafter defined.

"Additional Revenues" means, with respect to the issuance of any Parity Obligations, an allowance for Net Revenues arising from any increase in the charges made for service from the Enterprise which has become effective prior to the incurring of such Parity Obligations but which, during all or any part of the latest Fiscal Year or more recent period of 12 consecutive months, 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 such 12-month period, all as shown by the certificate or opinion of an independent certified public accountant selected by the District.

"Assignee" means (a) initially, CN Financing, Inc., as assignee of certain rights of the Corporation hereunder, and (b) any other entity to whom the rights of the Corporation shall be assigned hereunder.

"Bond Counsel" means any attorney or firm of attorneys of nationally recognized expertise with respect to legal matters relating to obligations the interest on which is excludable from gross income under Section 103 of the Tax Code.

"Closing Date" means the date the Corporation deposits the funds necessary to acquire the Project with the District pursuant to Section 3.2.

"Corporation" means Municipal Finance Corporation, a corporation duly organized and existing under the laws of the State of California.

"District" means the Santa Ynez Community Services District, a community services district duly organized and existing under the Constitution and laws of the State of California.

"Determination of Taxability" means any action taken or omitted to be taken by the District that results in the interest components of the Installment Payments becoming includable in the gross income of the Assignee, with respect to which the Assignee either (i) receives notice, in any form, from the Internal Revenue Service or (ii) reasonably determines, based on an opinion of Bond Counsel, that the interest components of the Installment Payments are not excludable from the gross income of the recipient thereof.

"Enterprise" means the existing facilities and property owned or operated by the District in connection with the wastewater collection, treatment and disposal services of the District, together with all extensions thereof and improvements thereto hereafter acquired, constructed or installed by the District.

"Event of Default" means any of the events of default as defined in Section 5.1.

"Federal Securities" means any direct general non-callable obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), or obligations the timely payment of principal of and interest on which are directly guaranteed by the United States of America.

"Fiscal Year" means each twelve-month period during the Term of this Installment Sale Agreement commencing on July 1 in any calendar year and ending on June 30 in the next succeeding calendar year, or any other twelve-month period selected by the District as its fiscal year period.

"Gross Revenues" means all gross charges received for, and all other gross income and receipts derived by the District from, the ownership and operation of the Enterprise or otherwise arising from the Enterprise, including but not limited to connection charges and earnings on the investment of any funds held by the District; but excluding (a) the proceeds of any ad valorem property taxes levied for the purpose of paying bonded indebtedness of the District and (b) the proceeds of any special assessments or special taxes levied upon real property within any improvement district served by the District for the purpose of paying special assessment bonds or special tax obligations of the District and (c) any refundable deposits made to establish credit, and advances or contributions in aid of construction.

"Installment Sale Agreement" means this Installment Sale Agreement, dated as of June 16, 2021, between the Corporation and the District.

"Installment Payment Date" means the date on which each Installment Payment is due and payable, commencing twelve months after the Closing Date and continuing to and including the date on which the Installment Payments have been paid in full.

"Installment Payments" means all payments required to be paid by the District on any date pursuant to Section 3.6, including any prepayment thereof pursuant to Section 6.2 or 6.3.

"Maintenance and Operation Costs" means the reasonable and necessary costs and expenses paid by the District for maintaining and operating the Enterprise, including but not limited to the reasonable expenses of management and repair and other costs and expenses necessary to maintain and preserve the Enterprise in good repair and working order, and including but not limited to administrative costs of the District attributable to the Enterprise and the financing thereof, including salaries and wages of employees, payment to employees retirement system (to the extent paid from Revenues), overhead taxes (if any), fees of auditors, accountants, attorneys or engineers and insurance premiums along with all other reasonable and necessary costs of the District but in all cases excluding depreciation, replacement and obsolescence charges or reserves therefor and excluding amortization of intangibles or other bookkeeping entries of a similar nature (including non-cash pension-related charges).

"Maximum Annual Debt Service" means, as of the date of any calculation, the maximum sum obtained for the current or any future Fiscal Year during the Term of this Installment Sale Agreement by totaling the aggregate amount of (i) the Installment Payments coming due in such Fiscal Year, and (ii) the principal and interest coming due and payable in such Fiscal Year on any Parity Obligations, including the principal amount coming due and payable by operation of mandatory sinking fund redemption. There shall be excluded from such calculation any principal of and interest on the Installment Payments and any Parity Obligations which have been defeased or discharged, or for the payment of which a security deposit has been posted. With respect to any Parity Obligations which then 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 5 previous whole calendar years as shown by the J. J. Kenny Index (or at any time 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).

"Net Revenues" means, for any period, an amount equal to all of the Gross Revenues received during such period, minus the amount required to pay all Maintenance and Operation Costs becoming payable during such period.

"Parity Obligations" means any 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.

"Project" means the facilities and improvements described in Exhibit B attached hereto and by this reference incorporated herein.

"Project Fund" means the fund established for the acquisition and construction of the Project, as such fund is described in Section 3.2.

"Revenue Fund" means the fund by that name established by the District and referenced in Section 3.8(b).

"Taxable Date" means, with respect to any Determination of Taxability, the date on which the Assignee either (i) receives notice, in any form, from the Internal Revenue Service or (ii) reasonably determines, based on an opinion of Bond Counsel, that the interest components of the Installment Payments are not excludable from the gross income of the recipient thereof.

“Taxable Rate” means 6% per annum.

"Tax Code" means the Internal Revenue Code of 1986. Any reference herein to a provision of the Tax Code shall include all applicable temporary and permanent regulations promulgated under the Tax Code.

"Term of this Installment Sale Agreement" or "Term" means the time during which this Installment Sale Agreement is in effect, as provided in Section 3.3.

SECTION 1.2. Exhibits. The following Exhibits are attached to, and by reference made a part of, this Installment Sale Agreement:

Exhibit A: Schedule of Installment Payments to be paid by the District hereunder, showing the date and amount of each such Installment Payment.

Exhibit B: The description of the Project.

ARTICLE II

REPRESENTATIONS, COVENANTS AND WARRANTIES

SECTION 2.1. Representations, Covenants and Warranties of the District. The District represents, covenants and warrants to the Corporation as follows:

(a) Due Organization and Existence. The District is a community services district duly organized and existing under the Constitution and laws of the State of California.

(b) Authorization. The laws of the State of California authorize the District to enter into this Installment Sale Agreement and to enter into the transactions contemplated hereby and thereby, and to carry out its obligations under this Installment Sale Agreement and the Board of Directors of the District has duly authorized the execution and delivery of this Installment Sale Agreement.

(c) No Violations. Neither the execution and delivery of this Installment Sale Agreement nor the fulfillment of or compliance with the terms and conditions hereof or thereof, nor the consummation of the transactions contemplated hereby or thereby, conflicts with or results in a breach of the terms, conditions or provisions of any restriction or any agreement or instrument to which the District is now a party or by which the District is bound, or constitutes a default under any of the foregoing, or results in the creation or imposition of any lien, charge or encumbrances whatsoever upon any of the property or assets of the District, other than as set forth herein.

(d) Prior Indebtedness. The District has not issued or incurred any obligations which are currently outstanding having any priority in payment out of the Gross Revenues or the Net Revenues over the payment of the Installment Payments as provided herein.

SECTION 2.2. Representations, Covenants and Warranties of the Corporation. The Corporation represents, covenants and warrants to the District as follows:

(a) Due Organization and Existence. The Corporation is a corporation duly organized and existing under the laws of the State of California.

(b) Authorization. The laws of the State of California authorize the Corporation to enter into this Installment Sale Agreement and to enter into the transactions contemplated hereby and thereby, and to carry out its obligations under this Installment Sale Agreement and the Board of Directors of the Corporation has duly authorized the execution and delivery of this Installment Sale Agreement.

(c) No Violations. Neither the execution and delivery of this Installment Sale Agreement nor the fulfillment of or compliance with the terms and conditions hereof or thereof, nor the consummation of the transactions contemplated hereby or thereby, conflicts with or results in a breach of the terms, conditions or provisions of any restriction or any agreement or instrument to which the Corporation is now a party or by which the Corporation is bound, or constitutes a default under any of the foregoing, or results in the creation or imposition of any lien, charge or encumbrance whatsoever upon any of the property or assets of the Corporation.

(d) No Assignments. Except as provided herein, the Corporation will not assign this Installment Sale Agreement, its right to receive Installment Payments from the District, or its duties and obligations hereunder to any other person, firm or corporation so as to impair or violate the representations, covenants and warranties contained in this Section 2.2.

(e) No Fiduciary Relationship. The Corporation is entering into this Installment Sale Agreement with the District as an arm's length commercial transaction and is not acting in the capacity of a "Municipal Advisor" as such term is defined in Section 15B of the Securities and Exchange Act of 1934, as amended, and the related final rules, or otherwise serving as an agent or fiduciary of the District.

ARTICLE III

TERMS OF INSTALLMENT SALE

SECTION 3.1. Sale. The Corporation hereby sells the Project to the District, and the District hereby purchases the Project from the Corporation, upon the terms and conditions set forth in this Installment Sale Agreement.

SECTION 3.2. Deposit of Moneys; Acquisition and Construction of the Project. On the Closing Date the Corporation shall deposit the sum of \$1,300,000.00 to a special account established by the District (the "Project Fund"), which the District shall expend as agent of the Corporation for the purpose of acquiring, constructing and installing the Project. The District shall invest proceeds in the Project Fund in investments authorized by California law and the District's investment policy. Any unexpended proceeds in the Project Fund upon the completion of the Project shall be applied by the District towards the payment of Installment Payments.

The Corporation hereby appoints the District as its agent to carry out all phases of the acquisition, construction and installation of the Project and the District hereby accepts such appointment. The District shall enter into contracts and provide for, as agent for Corporation, the complete acquisition, construction

and installation of the Project. The District hereby agrees that it will cause the acquisition, construction and installation of the Project to be diligently performed. It is hereby expressly understood and agreed that the Corporation shall be under no liability of any kind or character whatsoever for the payment of any cost of the Project except for the funds deposited in the Project Fund pursuant to the immediately preceding paragraph and that all such costs and expenses shall be paid by the District, regardless of whether the funds deposited with the District are sufficient to cover all such costs and expenses.

SECTION 3.3. 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 and all other amounts due and payable hereunder or provision for such payment shall be made as provided herein.

SECTION 3.4. Title. As between the Corporation and the District, title to the Project, and each component thereof, shall be deemed conveyed to and vested in the District upon the acquisition and construction thereof. The Corporation shall, execute deliver and cause to be recorded and any all documents reasonably requested by the District to consummate such transfer of title.

SECTION 3.5. Disclaimer of Warranties. THE CORPORATION MAKES NO WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AS TO THE VALUE, DESIGN, CONDITION, MERCHANTABILITY OR FITNESS FOR PARTICULAR PURPOSE OF THE PROJECT OR ANY PART THEREOF, OR AS TO THE FITNESS FOR ANY PARTICULAR USE OF THE PROJECT OR ANY PART THEREOF OR AS TO THE FITNESS OF THE PROJECT FOR THE USE CONTEMPLATED BY THE DISTRICT OR ANY PART THEREOF, OR ANY OTHER REPRESENTATION OR WARRANTY WITH RESPECT THERETO. THE DISTRICT ACKNOWLEDGES THAT THE CORPORATION IS NOT A CONTRACTOR OF THE PROJECT, THAT THE DISTRICT PURCHASES THE PROJECT "AS-IS", IT BEING AGREED THAT ALL OF THE AFOREMENTIONED RISKS ARE TO BE BORNE BY THE DISTRICT. IN NO EVENT SHALL THE CORPORATION BE LIABLE FOR ANY INCIDENTAL, INDIRECT, SPECIAL OR CONSEQUENTIAL DAMAGE IN CONNECTION WITH OR ARISING OUT OF THIS AGREEMENT OR THE ACQUISITION, CONSTRUCTION, EXISTENCE, FURNISHING, FUNCTIONING OR THE DISTRICT'S USE OF ANY ITEM OR PRODUCTS OR SERVICES PROVIDED FOR IN THIS AGREEMENT. THE DISTRICT ACKNOWLEDGES THAT IT IS SOLELY RESPONSIBLE FOR DETERMINING THE SUITABILITY OF THE PROJECT FOR ITS INTENDED USE.

SECTION 3.6. Installment Payments.

(a) Obligation to Pay. The District hereby agrees to pay to the Corporation, as the purchase price of the Project hereunder, Installment Payments with principal components aggregating \$1,300,000.00 and interest components (calculated at the rate of 2.93% on the basis of a 360-day year of twelve 30-day months) on the unpaid principal components thereof, payable in the respective amounts and on the respective Installment Payment Dates specified in Exhibit A attached hereto.

As a result of the assignment by the Corporation to the Assignee of the right of the Corporation to receive the Installment Payments, the District shall pay all Installment Payments when due directly to the Assignee.

(b) Effect of Prepayment. In the event that the District prepays the Installment Payments in full pursuant to Article VI, 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 under this Section 3.6; subject however, to the provisions of Section 6.1 in the case of prepayment by application of a security deposit. In the event that the District prepays the Installment Sale in part but not in whole pursuant to Section 6.3, the principal components of the remaining Installment Payments shall be reduced so as to produce equal Installment Payments over the remaining Term of this Installment Sale Agreement.

(c) Rate on Overdue Payments. In the event the District should fail to make any of the payments required in this Section 3.6, 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, to the extent permitted by law, from the date of default to the date of payment at the rate of eight percent (8%) per annum.

(d) Taxable Rate. Upon the occurrence of a Determination of Taxability, the District shall pay to the Assignee, within 30 days after the occurrence of such Determination of Taxability, the amount which, with respect to interest components of the Installment Payments previously paid and taking into account all penalties, fines, interest and additions to tax (including all federal, state and local taxes imposed on the interest components of the Installment Payments due and through the Taxable Date) that are imposed on the interest components of the Installment Payments or the Assignee as a result of the loss of the exclusion, will restore the Assignee the same after-tax yield on the Installment Payments that it would have realized had the exclusion not been lost. Additionally, the District agrees that commencing on the Taxable Date, interest shall accrue at the Taxable Rate.

SECTION 3.7. Nature of District's Obligations.

(a) Special Obligation. The District's obligation to pay the Installment Payments is a special obligation of the District limited solely to the Net Revenues and all amounts on deposit in the Revenue Fund. Under no circumstances is the District required 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 no other funds or property of the District are liable for the payment of the Installment Payments. Notwithstanding the foregoing provisions of this Section, however, nothing herein prohibits the District voluntarily from making any payment hereunder from any source of available funds of the District.

(b) Obligations Absolute. The obligations of the District to pay the Installment Payments from the Net Revenues and to perform and observe the other agreements contained herein are absolute and unconditional and are not subject to any defense or any right of setoff, counterclaim or recoupment arising out of any breach of the District or the Corporation of any obligation to the District or otherwise with respect to the Enterprise, whether hereunder or otherwise, or out of indebtedness or liability at any time owing to the District by the Corporation. Until such time as all of the Installment Payments have been fully paid or prepaid, the District:

- (i) will not suspend or discontinue payment of any Installment Payments,

(ii) will perform and observe all other agreements contained in this Installment Sale Agreement, and

(iii) will not terminate 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 Enterprise, sale of the Enterprise, the taking by eminent domain of title to or temporary use of any component of the Enterprise, commercial frustration of purpose, any change in the tax or other laws of the United States of America or the State of California or any political subdivision of either thereof or any failure of the Corporation to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with this Installment Sale Agreement.

(c) Protection of Rights. If the Corporation fails to perform any such agreements on its part, the District may institute such action against the Corporation as the District deems necessary to compel performance so long as such action does not abrogate the obligations of the District contained in the preceding subsection (b). 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 Corporation 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 Corporation will cooperate fully with the District and take such action necessary to effect the substitution of the District for the Corporation in such action or proceeding if the District shall so request.

SECTION 3.8. Pledge and Application of Net Revenues and Revenue Fund.

(a) Pledge. All of the Net Revenues and all amounts on deposit in the Revenue Fund are hereby irrevocably pledged to the punctual payment of the Installment Payments and any Parity Obligations. In accordance with Section 5451 of Title 1, Chapter 5.5 of the California Government Code, this pledge shall constitute a first and exclusive lien on the Net Revenues and such other moneys for the payment of the Installment Payments and any Parity Obligations in accordance with the terms hereof and the terms of the instruments authorizing the issuance of any Parity Obligations.

(b) Deposit of Gross Revenues; Transfers to Make Installment Payments. The District has heretofore established the Revenue Fund, which the District agrees to continue to hold and maintain for the purposes and uses set forth herein. The District shall deposit all Gross Revenues in the Revenue Fund promptly upon the receipt thereof.

All Net Revenues shall be held by the District in the Revenue Fund in trust for the benefit of the Corporation and for the benefit of the owners of any Parity Obligations. The District shall withdraw from such fund or funds and transfer to the Corporation an amount of Net Revenues equal to the aggregate amount of the Installment Payment when and as the same becomes due and payable. In addition, the District shall withdraw from such fund or funds such amounts of Net Revenues at such times as required to pay the principal of and interest on any Parity Obligations and otherwise comply with the provisions of the instruments authorizing the issuance of any Parity Obligations.

(c) Other Uses Permitted. The District shall manage, conserve and apply the Net Revenues in such a manner that all deposits required to be made under the preceding paragraph will be made at the times

and in the amounts so required. Subject to the foregoing sentence, so long as no Event of Default has occurred and is continuing hereunder, the District may at any time and from time to time use and apply Net Revenues for (i) the acquisition and construction of improvements to the Enterprise; (ii) the prepayment of the Installment Payments and any Parity Obligations, or (iii) any other lawful purpose of the District.

(d) Budget and Appropriation of Installment Payments. During the Term of this Installment Sale Agreement, the District shall adopt all necessary budgets and make all necessary appropriations of the Installment Payments from the Net Revenues. 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 (d) 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 actions 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 the perform the covenants and agreements in this subsection (d).

ARTICLE IV

COVENANTS OF THE DISTRICT

Section 4.1. Release and Indemnification Covenants. The District shall indemnify the Corporation and its officers, agents, successors and assigns and hold them harmless from and against all claims, losses and damages, including legal fees and expenses, arising out of the following:

(a) the use, maintenance, condition or management of, or from any work or thing done on or about the 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 intentional misconduct or negligence of the District or of any of its agents, contractors, servants, employees or licensees with respect to the Enterprise, and

(d) any intentional misconduct or negligence of any lessee of the District with respect to the Enterprise.

No indemnification is made under this Section 4.1 or elsewhere in this Installment Sale Agreement for willful misconduct, gross negligence, or breach of duty under this Installment Sale Agreement by the Corporation, its officers, agents, employees, successors or assigns.

Section 4.2. Sale or Eminent Domain of Enterprise. Except as provided herein, the District covenants that the Enterprise will not be encumbered, sold, leased, pledged, any charge placed thereon, or otherwise disposed of, as a whole or substantially as a whole if such encumbrance, sale, lease, pledge, charge or other disposition would materially impair the ability of the District to pay the Installment Payments or the principal of or interest on any Parity Obligations, or would materially adversely affect its ability to comply with the terms of this Installment Sale Agreement or the instruments authorizing the issuance of any Parity Obligations. The District shall not enter into any agreement which impairs the

operation of the Enterprise or any part of it necessary to secure adequate Net Revenues to pay the Installment Payments and any Parity Obligations, or which otherwise would impair the rights of the Corporation with respect to the Net Revenues. If any substantial part of the Enterprise is sold, the payment therefor must either (a) be used for the acquisition or construction of improvements and extensions or replacement facilities or (b) be applied to prepay or redeem the Installment Payments and any Parity Obligations, on a pro rata basis, in the manner provided herein and in the instruments authorizing such Parity Obligations.

Any amounts received as awards as a result of the taking of all or any part of the Enterprise by the lawful exercise of eminent domain, if and to the extent that such right can be exercised against such property of the District, shall either (a) be used for the acquisition or construction of improvements and extension or replacement facilities of the Enterprise, or (b) be applied to prepay or redeem the Installment Payments and any Parity Obligations, on a pro rata basis, in the manner provided herein and in the instruments authorizing such Parity Obligations.

Section 4.3. Insurance. The District shall at all times maintain with responsible insurers all such insurance on the Enterprise as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to the Enterprise. All amounts collected from insurance against accident to or destruction of any portion of the Enterprise shall be used to repair or rebuild such damaged or destroyed portion of the Enterprise or if determined not to repair or rebuild such portion and in any event to the extent not so applied, must either (a) be used for the acquisition or construction or improvements and extensions or replacement facilities or (b) be applied to prepay or redeem the Installment Payments and any Parity Obligations, on a pro rata basis, in the manner provided in this Installment Sale Agreement and in the instruments authorizing such Parity Obligations. The District shall also maintain, with responsible insurers, worker's compensation insurance and insurance against public liability and property damage to the extent reasonably necessary to protect the District, the Corporation and the Assignee. Any insurance required to be maintained hereunder may be maintained under and in accordance with a joint exercise of powers agreement, and may be maintained by the District in the form of self-insurance or in the form of participation by the District in a program of pooled insurance.

Section 4.4. Records and Accounts. The District shall keep proper books of records and accounts of the Enterprise, separate from all other records and accounts, in which complete and correct entries shall be made of all transactions relating to the Enterprise. Said books shall, upon prior request, be subject to the reasonable inspection of the Corporation.

The District shall cause the books and accounts of the Enterprise to be audited annually by an independent certified public accountant or firm of certified public accountants, not more than two hundred seventy (270) days after the close of each Fiscal Year, and shall furnish a copy of such report to the Corporation or the Assignee. The audit of the accounts of the Enterprise may be included as part of a general District-wide audit.

The District shall cause to be published annually, not more than two hundred seventy (270) days after the close of each Fiscal Year, a summary statement showing the amount of Gross Revenues and the disbursements from Gross Revenues and from other funds of the District in reasonable detail. The District shall furnish a copy of the statement, upon reasonable written request, to the Corporation and the Assignee.

Section 4.5. Rates and Charges.

(a) Covenant Regarding Gross Revenues. The District shall fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Enterprise during each Fiscal Year which (together with existing unencumbered cash and cash-equivalent balances which are lawfully available to the District for payment of any of the following amounts during such Fiscal Year) are at least sufficient, after making allowances for contingencies and error in the estimates, to pay the following amounts in the following order:

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

(ii) The Installment Payments and all principal of and interest and premium (if any) on any Parity Obligations coming due and payable during such Fiscal Year, without preference or priority;

(iii) All other payments coming due and payable during such Fiscal Year and required to be paid pursuant to this Installment Sale Agreement and the instruments authorizing any Parity Obligations; and

(iv) All payments required to meet any other obligations of the District which are charges, liens, encumbrances upon or payable from the Gross Revenues during such Fiscal Year.

(b) Covenant Regarding Net Revenues. In addition to the covenant set forth in the preceding clause (a) of this Section, the District shall fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Enterprise during each Fiscal Year which are sufficient to yield Net Revenues which (together with existing unencumbered cash and cash-equivalent balances which are lawfully available to the District with respect to such Fiscal Year) are at least equal to 115% of the aggregate amount of Installment Payments and principal of and interest on any Parity Obligations coming due and payable with respect to such Fiscal Year.

Section 4.6. No Priority for Additional Obligations. The District may not issue or incur any bonds or other obligations having any priority in payment of principal or interest out of the Net Revenues over the Installment Payments.

Section 4.7. Issuance of Parity Obligations. Except for obligations incurred to prepay or post a security deposit for the Installment Sale in whole, the District may not issue or incur any Parity Obligations unless:

(a) The District is not then in default under the terms of this Installment Sale Agreement.

(b) The sum of (1) Net Revenues (excluding connection charges), calculated in accordance with sound accounting principles, as shown by the books of the District for the latest Fiscal Year or as shown by the books of the District for any more recent 12 month period selected by the District, in either case verified by a certificate or opinion of an independent certified public accountant (which may be, but not need be, the outside firm providing auditing services) employed by the District, and (2) any Additional Revenues at least equal 115% of the amount of Maximum Annual Debt Service; *provided, however*, that this subsection (b) does not apply to any issue of Parity Obligations the net proceeds of which are applied to refund the Installment Sale or any Parity Obligations in whole or in part, so long as (i) the final maturity of such Parity

Obligations does not exceed the final maturity of the obligations being refunded, and (ii) the aggregate amount of debt service on such Parity Obligations in each Fiscal Year does not exceed the amount of debt service which would otherwise come due and payable in such Fiscal Year on the obligations being refunded.

(c) Notwithstanding the above, the District may incur debt payable from Net Revenues (i) to cause a defeasance of this Installment Sale Agreement or (ii) which is payable on a basis which is junior to the payment of the Installment Payments.

Section 4.9. Assignment by the Corporation. The Corporation's rights 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 assigned to the Assignee pursuant to an Assignment Agreement to which the District hereby consents. Whenever in this Installment Sale Agreement any reference is made to the Corporation and such reference concerns rights which the Corporation has assigned to the Assignee, such reference shall be deemed to refer to the Assignee.

The Corporation or the Assignee has the right to make additional assignments of its rights and obligations under this Installment Sale Agreement, but the District shall not be required to pay more than a single payee, regardless of the number of Assignees, and no such assignment will be effective as against the District unless and until the Corporation or the Assignee files with the District a copy of such assignment or written notice thereof. The District shall pay all Installment Payments hereunder under the written direction of the Corporation or the Assignee named in the most recent assignment or notice of assignment filed with the District. During the Term of this Installment Sale Agreement, the District shall keep a complete and accurate record of all such assignments or notices of assignment.

Section 4.10. Assignment by the District. This Installment Sale Agreement may not be assigned by the District, other than to a public agency which shall succeed to the interests of the District in and to the Enterprise and which (by operation of law, by contract or otherwise) becomes legally bound to all of the terms and provisions hereof.

Section 4.11. Amendment of this Installment Sale Agreement. This Installment Sale Agreement may be amended by the District and the Corporation, but only with the prior written consent of the Assignee (which consent may not be unreasonably withheld).

Section 4.12. Tax Covenants.

(a) Generally. The District shall not take any action or permit to be taken any action within its control which would cause or which, with the passage of time if not cured would cause, the interest components of the Installment Payments to become includable in gross income for federal income tax purposes.

(b) Private Activity Bond Limitation. The District shall assure that the proceeds of the Installment Sale are not so used as to cause the Installment Sale to satisfy the private business tests of section 141(b) of the Tax Code or the private loan financing test of section 141(c) of the Tax Code.

(c) Federal Guarantee Prohibition. The District 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 Installment Payments to be "federally guaranteed" within the meaning of Section 149(b) of the Tax Code.

(d) No Arbitrage. The District shall not take, or permit or suffer to be taken, any action with respect to the proceeds of the Installment Payments which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the Closing Date would have caused the Installment Payments to be "arbitrage bonds" within the meaning of Section 148(a) of the Tax Code.

(e) Small Issuer Exemption from Bank Nondeductibility Restriction. The District hereby designates this Installment Sale Agreement for purposes of paragraph (3) of Section 265(b) of the Tax Code and represents that not more than \$10,000,000 aggregate principal amount of obligations the interest on which is excludable (under Section 103(a) of the Tax Code) from gross income for federal income tax purposes (excluding (i) private activity bonds, as defined in Section 141 of the Tax Code, except qualified 501(c)(3) bonds as defined in Section 145 of the Tax Code and (ii) current refunding obligations to the extent the amount of the refunding obligation does not exceed the outstanding amount of the refunded obligation), including this Installment Sale Agreement, has been or will be issued by the District, including all subordinate entities of the District, during the calendar year 2021.

(f) Arbitrage Rebate. The District shall take any and all actions necessary to assure compliance with section 148(f) of the Tax Code, relating to the rebate of excess investment earnings, if any, to the federal government, to the extent that such section is applicable to the Installment Sale.

(g) Acquisition, Disposition and Valuation of Investments. Except as otherwise provided in the following sentence, the District covenants that all investments of amounts deposited in the Project Fund shall be acquired, disposed of, and valued (as of the date that valuation is required by this Installment Sale Agreement or the Tax Code) at Fair Market Value. Investments in funds or accounts (or portions thereof) that are subject to a yield restriction under applicable provisions of the Tax Code shall be valued at their present value (within the meaning of section 148 of the Tax Code).

For purposes of this subsection (g), the term "Fair Market Value" means the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm's length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of section 1273 of the Tax Code) and, otherwise, the term "Fair Market Value" means the acquisition price in a bona fide arm's length transaction (as referenced above) if (i) the investment is a certificate of deposit that is acquired in accordance with applicable regulations under the Tax Code, (ii) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the Tax Code, (iii) the investment is a United States Treasury Security – State and Local Government Series that is acquired in accordance with applicable regulations of the United States Bureau of Public Debt, or (iv) any commingled investment fund in which the District and related parties do not own more than a 10% beneficial interest therein if the return paid by the fund is without regard to the source of the investment.

ARTICLE V

EVENTS OF DEFAULT AND REMEDIES

SECTION 5.1. Events of Default Defined. The following shall be Events of Default under this Installment Sale Agreement.

(a) Failure by the District to pay the Corporation any Installment Payment or to pay other amounts required to be paid hereunder within fifteen (15) days of the time specified herein, and such failure is not cured within ten (10) days after written notice thereof by the Corporation.

(b) Failure by the District to observe and perform any covenant, condition or agreement on its part to be observed or performed hereunder other than as referred to in the preceding clause (a) of this Section, for a period of thirty (30) days after written notice specifying such failure and requesting that it be remedied has been given to the District by the Corporation *provided, however*, if in the reasonable opinion of the District the failure stated in the notice can be corrected, but not within such thirty (30) day period, the Corporation shall not unreasonably withhold its consent to an extension of such time if corrective action is instituted by the District within such thirty (30) day period and diligently pursued until the default is corrected.

(c) 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 bankrupt, or assignment by the District for the benefit of 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.

(d) An event of default as defined under any contracts or agreements relating to any Parity Obligations.

SECTION 5.2 Remedies on Default. Whenever any Event of Default shall have happened and be continuing, the Corporation shall have the rights, at its option and without any further demand or notice to:

(a) declare all principal components of the unpaid Installment Payments, together with all accrued and unpaid interest components of the Installment Payments from the immediately preceding Installment Payment Date on which payment was made, to be immediately due and payable, whereupon the same shall immediately become due and payable; and,

(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.

The provisions of the preceding clause (a) 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 Corporation 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 set forth in Section 3.4(c) and the reasonable expenses of the Corporation (including any fees and expenses of its attorneys), and any and all other defaults known to the Corporation (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, the Corporation may, by written notice to the District 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.

SECTION 5.3. No Remedy Exclusive. No remedy herein conferred upon or reserved to the Corporation 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 Corporation to exercise any remedy reserved to it in this Article V it shall not be necessary to give any notice, other than such notice as may be required in this Article V or by law.

SECTION 5.4. Agreement to Pay Attorneys' Fees and Expenses. In the event either party of this Installment Sale Agreement should default under any of the provisions hereof and the prevailing party should employ attorneys (including in-house counsel) or incur other expenses for the collection of moneys or the enforcement of 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 prevailing party the reasonable fees of such attorneys (including the allocable cost of in-house counsel) and such other expenses so incurred by the prevailing party.

SECTION 5.5. 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 5.6. Assignee to Exercise Rights Such rights and remedies as are given to the Corporation under this Article V have been assigned by the Corporation to the Assignee and shall be exercised solely by the Assignee.

ARTICLE VI

PREPAYMENT OF INSTALLMENT PAYMENTS

SECTION 6.1. 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, by irrevocably depositing with a fiduciary an amount of cash which, together with other available amounts, is either (a) sufficient to pay all such Installment Payments, including the principal and interest components thereof, when due pursuant to Section 3.4(a), or (b) invested in whole or in part in Federal Securities in such amount as will, in the opinion of an independent certified public accountant, together with interest to

Westlake Village, CA 91361
Attention: President

If to the Assignee: CN Financing, Inc.
555 South Flower Street, 21st Floor
Los Angeles, CA 90071
Attention: Credit Management

SECTION 7.2. Binding Effect. This Installment Sale Agreement shall inure to the benefit of and shall be binding upon the Corporation and the District and their respective successors and assigns.

SECTION 7.3. Severability. In the event any provision of this Installment Sale Agreement shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

SECTION 7.4. Net-net-net Contract. This Installment Sale Agreement shall be deemed and construed to be a “net-net-net” contract, and the District hereby agrees that the Installment Payments shall be an absolute net return to the Corporation, free and clear of any expenses, charges or set-offs whatsoever.

SECTION 7.5. Further Assurances and Corrective Instruments. The Corporation and the District agree that they will, from time to time, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, such supplements hereto and such further instruments as may reasonably be required for carrying out the expressed intention of this Installment Sale Agreement.

SECTION 7.6. Execution in Counterparts. This Installment Sale Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

SECTION 7.7. Applicable Law. This Installment Sale Agreement shall be governed by and construed in accordance with the laws of the State of California.

SECTION 7.8. Captions. The captions or headings in this Installment Sale Agreement are for convenience only and in no way define, limit or describe the scope or intent of any provisions or Section of this Installment Sale Agreement.

SECTION 7.9 Servicing; Appointment of Servicer. The Assignee may engage a servicer, and collaterally assign some or all of its rights under this Installment Sale Agreement, to act on behalf of the Assignee under this Installment Sale Agreement as the “Servicer”. The Assignee may at any time and from time to time terminate or remove and replace any such Servicer. The Assignee shall give written notice to the District of its appointment, termination, removal or replacement of any Servicer, and the parties may rely on any such notice until any subsequent notice is given. Initially, the Assignee has engaged City National Bank to act as the Servicer hereunder and City National Bank has accepted such engagement. The Assignee is under no obligation to appoint a Servicer; if at any time a Servicer has not been designated by the Assignee, any references to the “Servicer” herein shall refer to the Assignee. Any opinion or certificate provide for herein that is directed to the Servicer shall also be directed to, and may be relied upon by, the Assignee.

The Assignee shall be solely responsible for providing the funding under Section 3.2 of this Installment Sale Agreement. From and after the Closing Date, if the Assignee has appointed a Servicer for the Assignee under this Installment Sale Agreement, the District acknowledges and agrees that the Servicer shall exercise all of the rights and remedies of the Assignee under this Installment Sale Agreement, shall receive all reports, statements, notices and other communications from the District on behalf of the Assignee required to be delivered to the Assignee under this Installment Sale Agreement and shall be entitled to all of the protections afforded the Assignee under this Installment Sale Agreement.

IN WITNESS WHEREOF, the Corporation has caused this Installment Sale Agreement to be executed in its corporate name by its duly authorized officer, and the District has caused this Installment Sale Agreement to be executed in its name by its duly authorized officer, as of the date first above written.

SANTA YNEZ COMMUNITY SERVICES DISTRICT

By _____
President of the Board

MUNICIPAL FINANCE CORPORATION

By _____
President

EXHIBIT A

SCHEDULE OF INSTALLMENT PAYMENTS

PMT #	Due Date	Installment Payment	To Principal	To Interest
1		\$86,815.89	\$48,725.89	38,090.00
2		86,815.89	50,153.56	36,662.33
3		86,815.89	51,623.06	35,192.83
4		86,815.89	53,135.61	33,680.28
5		86,815.89	54,692.49	32,123.40
6		86,815.89	56,294.98	30,520.91
7		86,815.89	57,944.42	28,871.47
8		86,815.89	59,642.19	27,173.70
9		86,815.89	61,389.71	25,426.18
10		86,815.89	63,188.43	23,627.46
11		86,815.89	65,039.85	21,776.04
12		86,815.89	66,945.51	19,870.38
13		86,815.89	68,907.02	17,908.87
14		86,815.89	70,925.99	15,889.90
15		86,815.89	73,004.13	13,811.76
16		86,815.89	75,143.15	11,672.74
17		86,815.89	77,344.84	9,471.05
18		86,815.89	79,611.04	7,204.85
19		86,815.89	81,943.65	4,872.24
20		86,815.89	84,344.48	2,471.41
TOTALS:		<u>\$1,736,317.80</u>	<u>\$1,300,000.00</u>	<u>\$436,317.80</u>

EXHIBIT B

DESCRIPTION OF THE PROJECT

Main sewer line extension