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LOAN AGREEMENT #14-018

This LOAN AGREEMENT (this "Loan Agreement"), dated for convenience as of October 1, 2014, 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 Sunnyslope County Water District, a county water 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 supply of water to residents within the service area of the District (the "Enterprise"); and

WHEREAS, the District previously financed and refinanced certain improvements to the Enterprise pursuant to an Installment Purchase Agreement dated as of May 1, 2002 between the District and the California Statewide Communities Development Authority (the "Prior Agreement"); and

WHEREAS, the District desires to prepay and refinance the Prior Agreement and is duly authorized to enter into this Loan Agreement and borrow funds hereunder pursuant to Government Code Section 53570; and

WHEREAS, the Corporation has agreed to lend the District an amount which the District has determined will be sufficient to pay off the Prior 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 Loan Agreement have the meanings herein specified or as hereinafter defined.

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

(i) An allowance for Net Revenues from any additions or improvements to or extensions of the 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 such twelve (12) month period, 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 (which may but need not be the outside firm providing engineering services) retained by the District.

(ii) An allowance for Net Revenues arising from any increase in the charges made for service from the Enterprise which has been adopted prior to the incurring of such Parity Obligations but which, during all or any part of the latest Fiscal Year or such twelve (12) month period, 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 independent certified public accountant (which may but need not be the outside firm providing auditing services) retained by the District.

"Assignee" means (a) initially, City National Bank, 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.

"Closing Date" means the date the Corporation deposits the Loan proceeds pursuant to Section 3.2.

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

"District" means Sunnyslope County Water District, a county water district duly organized and existing under the Constitution and laws of the State of California.

"Enterprise" means the existing facilities and property owned by the District in connection with the water supply 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 Loan 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.

"Hollister Water Agreement" means that certain Hollister Urban Area Water Supply and Treatment Agreement, dated May 29, 2013, by and among the District, the City of Hollister and the San Benito County Water District.

"Loan" means the loan made by the Corporation to the District pursuant to Section 3.1.

"Loan Agreement" means this Loan Agreement, dated as of October 1, 2014, between the Corporation and the District.

"Loan Repayment Date" means April 16 and October 16 in each year, commencing April 16, 2015, and continuing to and including the date on which the Loan Repayments have been paid in full, as shown in Exhibit A.

"Loan Repayments" means all payments required to be paid by the District on any date pursuant to Section 3.4, 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, 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. Maintenance and

Operation Costs shall include the Administrative Fee Component, Direct Cost Component, Water Supply Component and Treated Water Component of the Hollister Water Agreement.

"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 Loan Agreement by totaling the aggregate amount of (i) the Loan Repayments 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 Loan Repayments 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 SIFMA 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 Loan Repayments, including but not limited to the Capital Component of the Hollister Water Agreement.

"Revenue Fund" means the fund heretofore established and held by the District for the receipt and deposit of Gross Revenues.

"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 Loan Agreement" or "Term" means the time during which this Loan 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 Loan Agreement:

Exhibit A: The schedule of Loan Repayments to be paid by the District hereunder, showing the date and amount of each such Loan Repayment.

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 county water 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 Loan Agreement and to enter into the transactions contemplated hereby and thereby, and to carry out its obligations under this Loan Agreement and the Board of Directors of the District has duly authorized the execution and delivery of this Loan Agreement.

(c) No Violations. Neither the execution and delivery of this Loan 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) No 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 Loan Repayments 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 Loan Agreement and to enter into the transactions contemplated hereby and thereby, and to carry out its obligations under this Loan Agreement and the Board of Directors of the

Corporation has duly authorized the execution and delivery of this Loan Agreement.

(c) No Violations. Neither the execution and delivery of this Loan 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 Loan Agreement, its right to receive Loan Repayments 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.

ARTICLE III

TERMS OF LOAN

SECTION 3.1. Obligation to Make Loan; Amount of Loan. The Corporation hereby agrees to lend to the District, and the District hereby agrees to borrow from the Corporation, the amount of \$3,943,125.57 under the terms and provisions set forth in this Loan Agreement.

SECTION 3.2. Deposit of Moneys; Prepayment of Prior Agreement. On the Closing Date the Corporation shall deposit the sum of \$3,918,125.58 with MUFG Union Bank (the "Trustee"), which the Trustee shall apply towards the prepayment of the Prior Agreement, and the Corporation shall apply the sum of \$24,999.99 towards the payment of costs of issuing this Loan Agreement.

SECTION 3.3. Term. The Term of this Loan Agreement shall commence on the Closing Date, and shall end on the date on which the Loan shall be paid in full or provision for such payment shall be made as provided herein.

SECTION 3.4. Loan Repayments.

(a) Obligation to Pay. The District hereby agrees to repay the Loan in the aggregate principal amount of \$3,943,125.57 together with interest (calculated at the rate of 3.40% on the basis of a 360-day year of twelve 30-day months) on the unpaid principal balance thereof,

payable in semiannual Loan Repayments in the respective amounts and on the respective Loan Repayment Dates specified in Exhibit A.

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

(b) Effect of Prepayment. In the event that the District prepays the Loan Repayments in full pursuant to Article VI, the District's obligations under this Loan Agreement shall thereupon cease and terminate, including but not limited to the District's obligation to pay Loan Repayments under this Section 3.4; 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 Loan in part but not in whole pursuant to Section 6.3, the principal components of the remaining Loan Repayments shall be reduced on a pro rata basis so as to produce equal Loan Repayments over the remaining Term of this Loan Agreement.

(c) Rate on Overdue Payments. In the event the District should fail to make any of the payments required in this Section 3.4, 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.

SECTION 3.5. Nature of District's Obligations.

(a) Special Obligation. The District's obligation to pay the Loan Repayments 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 Loan Repayments, and no other funds or property of the District are liable for the payment of the Loan Repayments. 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 Loan Repayments 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 Loan Repayments have been fully paid or prepaid, the District:

(i) will not suspend or discontinue payment of any Loan Repayments,

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

(iii) will not terminate this Loan 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 Loan 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 3.6. 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 Loan Repayments and any Parity Obligations. The Net Revenues and amounts on deposit in the Revenue Fund may not be used for any other purpose so long as any of the Loan Repayments and any Parity Obligations remain unpaid; except that out of the Net Revenues and such other amounts there may be apportioned such sums, for such purposes, as are expressly permitted by this Section 3.6. 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 Loan Repayments 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 Loan Repayments. 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 will 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 Loan Repayment 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 Loan and any Parity Obligations, or (iii) any other lawful purpose of the District.

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 Loan 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 Loan Agreement for willful misconduct, gross negligence, or breach of duty under this Loan 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 Loan Repayments or the principal of or interest on any Parity Obligations, or would materially adversely affect its ability to comply with the terms of this Loan 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 Loan Repayments or 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 Loan 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 Loan 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. If any useful part of the Enterprise is damaged or destroyed, such part shall be restored to usable condition. 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 on a pro rata basis to prepay or redeem the Loan and the Prior Parity Obligations in the manner provided in this Loan 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, or 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 Loan Repayments and all principal of and interest and premium (if any) on any Parity Obligations as they become due and payable with respect to such Fiscal Year, without preference or priority;

(iii) All payments coming due and payable with respect to such Fiscal Year and required for compliance with this Loan 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 with respect to 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 fund 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 Loan Repayments 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 Loan Repayments.

SECTION 4.7. Issuance of Parity Obligations. As of the date hereof, the Capital Component of the Hollister Water Agreement is outstanding as a Parity Obligation. Except for obligations incurred to prepay or post a security deposit for the Loan in whole, the District may not issue or incur any additional Parity Obligations unless:

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

(b) The Net Revenues (excluding connection charges), calculated in accordance with sound accounting principles, as shown by the books of the District for the latest audited Fiscal Year or as shown by the books of the District for any more recent 12 month period selected by the District, plus (at the option of the District) the 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 Loan 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.

For purposes of the foregoing calculation of Net Revenues under this subsection (b), the District may add to such Net Revenues any Additional Revenues.

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

SECTION 4.9. Assignment by the Corporation. The Corporation's rights under this Loan Agreement, including the right to receive and enforce payment of the Loan Repayments to be made by the District under this Loan Agreement, have been assigned to the Assignee pursuant to an Assignment of Loan Agreement. Whenever in this Loan 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 Loan 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 written notice thereof. The District shall pay all Loan Repayments 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 Loan Agreement, the District shall keep a complete and accurate record of all such notices of assignment.

SECTION 4.10. Assignment by the District. Neither the Loan nor this Loan Agreement may 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 Loan Agreement. This Loan 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 Loan Repayments 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 Loan are not so used as to cause the Loan 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 Loan Repayments 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 Loan Repayments 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 Loan 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 Loan 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 Loan Agreement, has been or will be issued by the District, including all subordinate entities of the District, during the calendar year 2014.

(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 Loan.

(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 any fund or account created by or pursuant to this Loan Agreement, or otherwise containing gross proceeds of the Loan (within the meaning of section 148 of the Tax Code) shall be acquired, disposed of, and valued (as of the date that valuation is required by this Indenture 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 Loan Agreement.

(a) Failure by the District to pay the Corporation any Loan Repayment 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 Loan Repayments, together with accrued interest thereon at the rate of interest per annum represented by the Loan from the immediately preceding Loan 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 Loan Repayments then due or thereafter to become due during the Term of this Loan Agreement, or enforce performance and observance of any obligation, agreement or covenant of the District under this Loan 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 Loan Repayments 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 Loan Repayments coming due prior to such declaration and all matured interest components (if any) of the Loan Repayments, 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 Loan Repayments 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 Loan 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 Loan Agreement should default under any of the provisions hereof and the nondefaulting 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 nondefaulting party the reasonable fees of such attorneys (including the allocable cost of in-house counsel) and such other expenses so incurred by the nondefaulting party.

SECTION 5.5. No Additional Waiver Implied by One Waiver. In the event any agreement contained in this Loan 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 LOAN

SECTION 6.1. Security Deposit. Notwithstanding any other provision of this Loan Agreement, the District may on any date secure the payment of Loan Repayments, 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 Loan Repayments, 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 accrue thereon and together with any cash which is so deposited, be fully sufficient to pay all such Loan Repayments when due pursuant to Section 3.4(a) or when due on any optional prepayment date pursuant to Section 6.2, as the District shall instruct at the time of said deposit. In the event of a security deposit pursuant to this Section for the payment of all remaining Loan Repayments, all obligations of the District under this Loan Agreement, and the pledge of Net Revenues and all other security provided by this Loan Agreement for said obligations, shall cease and terminate, excepting only the obligation of the District to make, or cause to be made, all of Loan Repayments from such security deposit. Said security deposit shall be deemed to be and shall constitute a special fund for the payment of such Loan Repayments in accordance with the provisions of this Loan Agreement.

SECTION 6.2. Optional Prepayment. The District shall have the option to prepay the unpaid principal balance of the Loan in whole, on any Loan Repayment Date, commencing on the tenth Loan Repayment Date, by paying the Loan Repayment required to be paid on such date plus a prepayment price equal to the principal amount of the Loan Repayments to be prepaid, together with a one percent (1%) prepayment premium thereon. The District shall give the Corporation written notice of its intention to exercise its option not less than thirty (30) days in advance of the date of exercise.

SECTION 6.3. Mandatory Prepayment From Net Proceeds of Insurance or Eminent Domain. The District shall prepay the unpaid principal balance of the Loan in whole on any date or in part, on any Loan Repayment Date, from and to the extent the District determines to apply any Net Proceeds of insurance award or condemnation award with respect to the Enterprise for such purpose pursuant to Sections 4.2 or 4.3 at a price equal to the principal amount to be prepaid plus a prepayment premium equal to the amount which would apply to such prepayment if the District prepaid its obligations under Section 6.2 on such date. The

District and the Corporation hereby agree that such proceeds, to the extent remaining after payment of any delinquent Loan Repayments, shall be credited towards the District's obligations under this Section 6.3.

ARTICLE VII

MISCELLANEOUS

SECTION 7.1. Notices. All written notices to be given under this Loan Agreement shall be given by first class mail or personal delivery to the party entitled thereto at its address set forth below, or by telecopier or other form of telecommunication, at its number set forth below. Notice shall be effective either (a) upon transmission by telecopier or other form of telecommunication, (b) 48 hours after deposit in the United States of America first class mail, postage prepaid, or (c) in the case of personal delivery to any person, upon actual receipt. The Corporation, the District or the Assignee may, by written notice to the other parties, from time to time modify the address or number to which communications are to be given hereunder.

If to the District: Sunnyslope County Water District
 3570 Airline Highway
 Hollister, CA 95023
 Attention: General Manager

If to the Corporation: Municipal Finance Corporation
 2945 Townsgate Road, Suite 200
 Westlake Village, CA 91361
 Attention: President

If to the Assignee: City National Bank
 555 South Flower Street, 8th Floor
 Los Angeles, CA 90071
 Attention: Credit Management

SECTION 7.2. Binding Effect. This Loan 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 Loan 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 Loan Agreement shall be deemed and construed to be a "net-net-net" contract, and the District hereby agrees that the Loan Repayments 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 Loan Agreement.

SECTION 7.6. Execution in Counterparts. This Loan 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 Loan 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 Loan Agreement are for convenience only and in no way define, limit or describe the scope or intent of any provisions or Section of this Loan Agreement.

[Remainder of Page Intentionally Left Blank]

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

SUNNYSLOPE COUNTY WATER DISTRICT

By Manny Vilbal
President of the Board

MUNICIPAL FINANCE CORPORATION

By _____
President

[Signature Page to Loan Agreement #14-018]

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

SUNNYSLOPE COUNTY WATER DISTRICT

By _____
President of the Board

MUNICIPAL FINANCE CORPORATION

By William R. Mouton
President

[Signature Page to Loan Agreement #14-018]

EXHIBIT A

SCHEDULE OF LOAN REPAYMENTS

| PMT # | Due Date | Loan Payment | To Principal | To Interest |
|----------------|----------|-----------------------|-----------------------|-----------------------|
| 1 | 04/16/15 | \$168,881.16 | \$101,848.03 | 67,033.13 |
| 2 | 10/16/15 | 168,881.16 | 103,579.44 | 65,301.72 |
| 3 | 04/16/16 | 168,881.16 | 105,340.29 | 63,540.87 |
| 4 | 10/16/16 | 168,881.16 | 107,131.08 | 61,750.08 |
| 5 | 04/16/17 | 168,881.16 | 108,952.31 | 59,928.85 |
| 6 | 10/16/17 | 168,881.16 | 110,804.49 | 58,076.67 |
| 7 | 04/16/18 | 168,881.16 | 112,688.17 | 56,192.99 |
| 8 | 10/16/18 | 168,881.16 | 114,603.87 | 54,277.29 |
| 9 | 04/16/19 | 168,881.16 | 116,552.14 | 52,329.02 |
| 10 | 10/16/19 | 168,881.16 | 118,533.52 | 50,347.64 |
| 11 | 04/16/20 | 168,881.16 | 120,548.59 | 48,332.57 |
| 12 | 10/16/20 | 168,881.16 | 122,597.92 | 46,283.24 |
| 13 | 04/16/21 | 168,881.16 | 124,682.08 | 44,199.08 |
| 14 | 10/16/21 | 168,881.16 | 126,801.68 | 42,079.48 |
| 15 | 04/16/22 | 168,881.16 | 128,957.31 | 39,923.85 |
| 16 | 10/16/22 | 168,881.16 | 131,149.58 | 37,731.58 |
| 17 | 04/16/23 | 168,881.16 | 133,379.12 | 35,502.04 |
| 18 | 10/16/23 | 168,881.16 | 135,646.57 | 33,234.59 |
| 19 | 04/16/24 | 168,881.16 | 137,952.56 | 30,928.60 |
| 20 | 10/16/24 | 168,881.16 | 140,297.75 | 28,583.41 |
| 21 | 04/16/25 | 168,881.16 | 142,682.82 | 26,198.34 |
| 22 | 10/16/25 | 168,881.16 | 145,108.42 | 23,772.74 |
| 23 | 04/16/26 | 168,881.16 | 147,575.27 | 21,305.89 |
| 24 | 10/16/26 | 168,881.16 | 150,084.05 | 18,797.11 |
| 25 | 04/16/27 | 168,881.16 | 152,635.48 | 16,245.68 |
| 26 | 10/16/27 | 168,881.16 | 155,230.28 | 13,650.88 |
| 27 | 04/16/28 | 168,881.16 | 157,869.19 | 11,011.97 |
| 28 | 10/16/28 | 168,881.16 | 160,552.97 | 8,328.19 |
| 29 | 04/16/29 | 168,881.16 | 163,282.37 | 5,598.79 |
| 30 | 10/16/29 | 168,881.16 | 166,058.22 | 2,822.94 |
| TOTALS: | | <u>\$5,066,434.80</u> | <u>\$3,943,125.57</u> | <u>\$1,123,309.23</u> |