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Agenda of:  
**Special Public Meeting**  
Of the  
**Forestville Water District Board of Directors**

Date: **Tuesday, July 19, 2022**

Time: **5:30 PM**

Location: **Virtual video conference**

*In accordance with AB 361, Governor Newsom's March 4, 2020, State of Emergency due to the COVID-19 pandemic, Sonoma County Public Health Officer's Recommendation for Teleconferenced Meetings, and the Forestville Water District Board of Directors Resolution 413(h), the July 19, 2022, Board of Supervisors Meeting will be facilitated using virtual format with listening and participation available through Zoom.*

*Forestville Water District ("District"), in complying with the Americans with Disabilities Act ("ADA"), requests individuals who require special accommodations to access and/or participate in District Board meetings, to please contact the District office at (707) 887-1551 or [info@forestvillewd.com](mailto:info@forestvillewd.com), at least three (3) business days before the scheduled District Board meeting to ensure that the District may assist you.*

**To join Zoom Meeting:**

Link: <https://zoom.us/join>

Meeting ID: 812 3387 1810

Password: 157723

**To participate in Zoom by telephone:**

Dial: 1-669-900-9128

Meeting ID: 812 3387 1810

Password: 157723

**RECORDING OF MEETING ANNOUNCEMENT:**

***This meeting may be recorded to assist in preparation of minutes. Recordings will only be kept for 30 days following the meeting as mandated by the Ralph M. Brown Act.***

- I. CALL TO ORDER
- II. ROLL CALL
- III. APPROVAL OF AGENDA
- IV. STATEMENT OF ABSTENTION
- V. PUBLIC COMMENT (Public testimony is limited to three minutes)
- VI. CONSENT ITEMS: (No consent items tonight)
- VII. PUBLIC HEARING: (No public hearing tonight)
- VIII. ACTION ITEMS
  - A. USDA SEWER LOANS
  - B. DEBT MANAGEMENT POLICY
- IX. ADJOURNMENT

**How to get an item on the agenda**

Items for the agenda of the regular meetings of the Forestville Water District must be submitted to the District in writing. Regular meetings are held the 2<sup>nd</sup> Tuesday of each month. Submissions must be received by the District no later than ten (10) calendar days before the meeting. Submit your agenda items to: Forestville Water District, Post Office Box 261, Forestville, CA 95436, or email to: [info@forestvillewd.com](mailto:info@forestvillewd.com). Be sure to include your name, address, and phone number. Anonymous submissions will not be considered for discussion.

Agenda Item:

## REFINANCING USDA SEWER LOANS

Summary:

### July 19, 2022

On October 11, 2001, the District entered into three loans totaling \$2,945,800 with the USDA for sewer system improvements, (the "USDA Sewer Loans"):

1. Loan #92-01 was in the amount of \$1,894,000, carried an interest rate of 5.0% and matures on 2041, which will have \$1,371,200 in outstanding loan balance after the August 1<sup>st</sup> payment.
2. Loan #92-03 was in the amount of \$764,000, carried an interest rate of 5.0% and matures on 2041, of which will have an outstanding loan balance of \$536,500 after the August 1<sup>st</sup> payment.
3. Loan #92-04 was in the amount of \$155,300, carried an interest rate of 4.75% and matures on 2041, of which will have an outstanding loan balance of \$139,000 after the August 1<sup>st</sup> payment.

There are \$2,046,700 in outstanding loan principal for the three loans, which does not include the \$60,900 scheduled principal payment due on August 1, 2022. The loans can be prepaid or refinanced on any interest payment date (August 1<sup>st</sup> or February 1<sup>st</sup>).

The District has budgeted and intends to make the August 1, 2022 debt service payment of approximately \$114,338. The District intends to refinance the remaining amount on August 1, 2022, with a loan from Umpqua Bank.

### Competitive Bid Process

Given the recent rising interest rate environment, staff began the process of refinancing these outstanding loans this summer. District staff directed the investment banking firm, Brandis Tallman a Division of Oppenheimer ("Oppenheimer") to procure bids from lenders for a refinancing of the USDA Sewer Loans. Oppenheimer was able to obtain 4 bids (summarized below).

CoBank = 4.55%

Truist Bank = 3.55%

Umpqua Bank = 3.45%

Webster Bank = 3.65%

The lowest bidder, Umpqua Bank, was selected.

### Financing Team

At the July 12 meeting, the Board selected Julio Morales of Kosmont Transaction Services, to serve as the financial advisor on behalf of the District for this transaction. Stradling, Yocca, Carlson & Rauth, which is the #1 ranked bond counsel firm in California, has been selected to draft the legal documents for this transaction. Oppenheimer will serve as the Placement Agent on the transaction. Each member of the financing team has submitted a fee proposal, which are contingent upon the successful closing of the transaction and paid from the proceeds of the bank loan.

Given the small size of the transaction, each of these firms has discounted their fees at least \$5,000, in order to make the economics of the financing more compelling.

### Refinancing Agreement

The primary loan document for this financing is the Refinancing Agreement, between the District and Umpqua Bank. The document details the key terms of the financing, interest rate, final maturity, principal and interest payment dates, optional redemption features, and repayment schedule. The agreement stipulates the District will provide a Net Revenue pledge toward the payment of the loan. Net Revenues are defined as Revenues less Operating and Maintenance Costs, excluding Depreciation). Furthermore, the agreement stipulates that the District will seek to

maintain a 120% coverage ratio of Net Revenues to Annual Debt Service; and to raise rates necessary to meet the coverage ratio. The agreement also details key provisions regarding events of default, remedies, on-going reporting requirements, and other general operating covenants of the District.

#### Projected Savings

The new loan with Umpqua Bank will have an interest rate of 3.45%. The loan amount will be approximately \$2,146,700, which includes \$80,000 in cost of issuance, which is projected to provide \$300,000 in total debt service savings over the next 18 years or an average of \$8,000 per annum. The present value savings are equal to \$206,000 or 9.6% of the par value refunded.

Oppenheimer solicited bids on June 30<sup>th</sup> .. The Federal Reserve Bank's is expected to increase rates another 0.75 to 100 basis points at the upcoming meeting on July 27<sup>th</sup> and has clearly communicated that it expects interest rates to continue to rise for the next couple of years (from 1.75% to 3.80%). Based on this interest rate outlook, Staff and our financial advisor recommends that the District execute this loan agreement with Umpqua Bank at 3.45%.

Finally, the loan has an 8-year call feature, which allows the District to refinance the loan after an 8-year period. The District will have the option to prepay the loan on an early date but will need to pay an additional premium of 3% to 1% of the loan value. Should interest rates return to decline in the future, the District will have another opportunity to realize additional savings by refinancing the remaining amount of the loan.

#### HISTORICAL:

##### July 12, 2022

On October 11, 2001, the District entered into three loans with the USDA for sewer system improvements, (the "USDA Sewer Loans.") The interest rates on two of the loans was 5.0% and 4.75% on the third loan. All three USDA Sewer Loans have a final maturity of August 1, 2041. There is currently a combined amount of \$2,046,700 outstanding on the USDA Sewer Loans after the District makes the August 1, 2022, debt service payment.

The USDA Sewer Loans are only eligible for refinancing on their payment dates, which are August 1<sup>st</sup> and February 1<sup>st</sup>. District staff recognized that interest rates would potentially go up in the coming months due to rate increases from the Federal Reserve. Considering those circumstances, District staff directed the investment banking firm, Brandis Tallman a Division of Oppenheimer ("Oppenheimer") to procure bids from lenders for a refinancing of the USDA Sewer Loans. The statement of qualifications for Oppenheimer has been provided in the agenda packet along with their placement agent agreement.

Oppenheimer was able to obtain 4 bids for the refinancing of the USDA Sewer Loans. The bids are summarized below, and the bid responses have been provided in the agenda packet.

CoBank = 4.55%

Truist Bank = 3.55%

Umpqua Bank = 3.45%

Webster Bank = 3.65%

Based on the results of the procurement process, Umpqua Bank provided the most aggressive financing terms. By proceeding with Umpqua Bank for the refinancing, the District will be able to generate \$249,364 in total savings over the remaining life of the USDA Sewer Loans. The refinancing does not extend the life of the prior USDA Sewer Loans and consolidates the three loans into one loan repayable to Umpqua Bank.

As previously discussed, the USDA Sewer Loans are only eligible for refinancing twice a year on their payment dates. If the refinancing does not close by August 1<sup>st</sup>, then the District would have to wait until February when the interest rate environment may not be as favorable. The next steps for the District would be to approve refinancing loan documents that have been prepared by the bond counsel firm Stradling Yocca Carlson & Rauth at a special board meeting before August 1, 2022.

Prior to that action, District staff would like to obtain the services of a municipal advisor to serve as fiduciary on these matters. District staff has received and reviewed statement of qualifications from Julio Morales of Kosmont Transaction Services and Bill Fawell of W.J. Fawell Co. Julio's statement of qualifications has been provided with the Board's agenda packet.

Copies Oppenheimer's & WJ Fawell Company's proposals are included in the board packet.

#### Potential Board Actions:

FWD Board may:

1. Approve Resolution #418 and authorize execution of Refinancing Agreement with Umpqua Bank and Certain Other Matters
2. Postpone for further evaluation and discussion

#### Staff Recommendation:

Approved Resolution #418 and authorize execution of the Refinancing Agreement as presented.

Report created by: Dawn Leith, Board Clerk

**FORESTVILLE WATER DISTRICT**

**RESOLUTION NO. 418**

**AUTHORIZING THE EXECUTION AND DELIVERY OF A REFINANCING AGREEMENT IN AN AMOUNT NOT TO EXCEED \$2,260,000 TO REFINANCE A 2001 INSTALLMENT SALE AGREEMENT AND APPROVING THE EXECUTION AND DELIVERY OF CERTAIN DOCUMENTS IN CONNECTION THEREWITH AND CERTAIN OTHER MATTERS**

WHEREAS, the Forestville County Sanitation District (the "Former District"), a special district duly organized and existing under and pursuant to the Constitution and laws of the State of California (the "State"), previously entered into an Installment Sale Agreement (the "2001 Installment Sale Agreement"), dated as of October 1, 2001, with the Sonoma County Water and Wastewater Financing Authority, for the purpose of borrowing moneys from the United States Department of Agriculture to finance upgrades to the Former District's wastewater treatment facilities; and

WHEREAS, on August 13, 2013, the Former District was reorganized as the Forestville Water District (the "District"), and the District succeeded to the Former District's obligations under the 2001 Installment Sale Agreement; and

WHEREAS, this Board of Directors (the "Board") has determined that it is in the best interest of the District to execute and deliver a Refinancing Agreement (the "Refinancing Agreement") with Umpqua Bank to refinance the 2001 Installment Sale Agreement and to approve certain documents in connection therewith;

NOW, THEREFORE, BE IT RESOLVED by the Board as follows:

1. The foregoing recitals are true and correct.
2. The Refinancing Agreement, in substantially the form presented to this meeting, is hereby approved. Each of the President or Vice President of the Board, the General Manager or the written designee thereof (each an "Authorized Representative") is hereby individually authorized and directed to execute and deliver the Refinancing Agreement with such changes, insertions and omissions as may be recommended by General Counsel or Stradling Yocca Carlson & Rauth, as Bond Counsel ("Bond Counsel"), and approved by the Authorized Representative executing the same, said execution being conclusive evidence of such approval; provided however the Refinancing Agreement shall not exceed a principal amount of \$2,260,000 and the net present value savings realized by such refinancing shall be at least 3.0%, as calculated by the District's Municipal Advisor.
3. Each Authorized Representative and any other proper officer of the District, acting individually, is hereby authorized and directed individually to execute and deliver any and all documents and instruments and to do and cause to be done any and all acts and things necessary or proper to refinance the 2001 Installment Sale Agreement and to carry out the transactions contemplated by this resolution. Each Authorized Representative is hereby authorized to execute a term sheet with Umpqua Bank so long as the terms therein comply with the limitations set forth in Section 2 hereof, and to the extent that such a term sheet has already been executed by an Authorized Representative,

such execution is hereby ratified, provided that such term shall complies with the limitations set forth in Section 2 hereof.

4. The Board acknowledges that the good faith estimates required by Section 5852.1 of the California Government Code are disclosed in Exhibit A attached to this Resolution and are available to the public at the meeting at which this resolution is approved.

5. Unless otherwise defined herein, all terms used herein and not otherwise defined shall have the meanings given such terms in the Refinancing Agreement unless the context otherwise clearly requires.

6. The Debt Management Policy presented at this meeting is hereby approved and its provisions shall apply to the District going forward.

7. This resolution shall take effect immediately.

**THE FOREGOING RESOLUTION WAS PASSED AND ADOPTED** upon motion of Director \_\_\_\_\_, seconded by Director \_\_\_\_\_, at a regular meeting of the Board of Directors of the Forestville Water District held on this 19th day of July, 2022, by the following vote:

Ayes:

Noes:

Abstain:

Absent:

**ATTEST:**

\_\_\_\_\_  
Matthew McDermott, Chair

## EXHIBIT A

### GOOD FAITH ESTIMATES

Set forth below are **good faith estimates**, as required under Section 5852.1 of the California Government Code (the "Code"). **The following estimates have no bearing on, and should not be misconstrued as, any not-to-exceed financial parameters authorized by resolution.**

- (a) The true interest cost of the refinancing agreement is estimated at 3.45%, calculated as provided in Section 5852.1(a)(1)(A) of the Code.
- (b) The finance charge of the refinancing agreement, including all fees and charges paid to third parties, is estimated at \$80,000.
- (c) Proceeds of the refinancing agreement expected to be received by the District pursuant to the refinancing agreement, less the finance charge described in (b) above is equal to \$2,159,620.
- (d) The total payment amount calculated as provided in Section 5852.1(a)(1)(D) of the Code is estimated at \$2,925,898.

The foregoing are estimates and the final costs will depend on market conditions and can be expected to vary from the estimated amounts set forth above.

**DRAFT**

**REFINANCING AGREEMENT**

by and between

**FORESTVILLE WATER DISTRICT**

and

**UMPQUA BANK**

Dated as of August 1, 2022

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**REFINANCING AGREEMENT**

This REFINANCING AGREEMENT is made and entered into as of August 1, 2022 by and between FORESTVILLE WATER DISTRICT, a special district duly organized and existing under and by virtue of the laws of the State of California (the “District”), and UMPQUA BANK, an Oregon state chartered bank (including its successors and assigns, the “Bank”).

**WITNESSETH:**

WHEREAS, the Forestville County Sanitation District (the “Former District”) previously obtained a loan (the “USDA Loan”) from the United States Department of Agriculture for the purpose of financing upgrades to the Former District’s wastewater treatment facilities (the “Refinancing Project”);

WHEREAS, the Bank has agreed to assist in refinancing an Installment Sale Agreement, dated as of October 1, 2001 between the Former District and the Sonoma County Water and Wastewater Financing Authority (the “2001 Installment Sale Agreement”), which 2001 Installment Sale Agreement was used to secure the USDA Loan on the terms and conditions set forth in this Agreement;

WHEREAS, on August 13, 2013, the Former District was reorganized as the District, and the liabilities and obligations of the Former District under the 2001 Installment Sale Agreement were assumed by the District;

WHEREAS, the District is authorized by Article 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code, including but not limited to Section 53583 (the “Refunding Statute”), to refinance the 2001 Installment Sale Agreement (including all laws amendatory thereof or supplemental thereto);

WHEREAS, the 2001 Installment Sale Agreement constitutes a “revenue bond” for purpose of the Refunding Statute;

WHEREAS, the District and the Bank have duly authorized the execution of this Agreement;

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

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

**ARTICLE I**

**DEFINITIONS**

**Section 1.01 Definitions.** Unless the context otherwise requires, the terms defined in this section shall for all purposes hereof and of any amendment hereof or supplement hereto and of any report or other document mentioned herein or therein have the meanings defined herein, the following

definitions to be equally applicable to both the singular and plural forms of any of the terms defined herein.

Accountant's Report. The term "Accountant's Report" means a report signed by an Independent Certified Public Accountant.

Agreement. The term "Agreement" means this Refinancing Agreement, dated as of August 1, 2022, by and between the District and the Bank, as originally executed and as it may from time to time be amended or supplemented in accordance herewith.

Applicable Environmental Laws. The term "Applicable Environmental Laws" means and shall include, but shall not be limited to, the Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA"), 42 USC Sections 9601 et seq.; the Resource Conservation and Recovery Act ("RCRA"), 42 USC Sections 6901 et seq.; the Federal Water Pollution Control Act, 33 USC Sections 1251 et seq.; the Clean Air Act, 42 USC Sections 7401 et seq.; the California Hazardous Waste Control Law ("HWCL"), California Health & Safety Code Sections 25100 et seq.; the Hazardous Substance Account Act ("HSAA"), California Health & Safety Code Sections 25300 et seq.; the Porter- Cologne Water Quality Control Act (the "Porter-Cologne Act"), California Water Code Sections 1300 et seq.; the Air Resources Act, California Health & Safety Code Sections 3900 et seq.; the Safe Drinking Water & Toxic Enforcement Act, California Health & Safety Code Sections 25249.5 et seq.; and the regulations under each thereof; and any other local, state, and/or federal laws or regulations, whether currently in existence or hereafter enacted, that govern: (a) the existence, cleanup, and/or remedy of contamination on property; (b) the protection of the environment from spilled, deposited, or otherwise emplaced contamination; (c) the control of hazardous wastes; or (d) the use, generation, transport, treatment, removal, or recovery of Hazardous Substances, including building materials.

Authorized Representative of the District. The term "Authorized Representative of the District" means the President of the District's Board of Directors, the Manager, the Finance Manager of the District, or the designee of any such officers.

Bank. The term "Bank" means Umpqua Bank, an Oregon state chartered bank, including its successors and assigns.

Bond Counsel. The term "Bond Counsel" means Stradling Yocca Carlson & Rauth, a Professional Corporation or another firm of nationally recognized attorneys experienced in the issuance of obligations the interest on which is excludable from gross income under Section 103 of the Internal Revenue Code of 1986, as amended.

Bonds. The term "Bonds" means all revenue bonds or notes of the District authorized, executed, issued and delivered by the District, the payments of which are payable from Net Revenues on a parity with the Refinancing Payments and which are secured by a pledge of and lien on the Revenues as described in Section 5.01 hereof. As of the date of execution of this Agreement, no Bonds are outstanding.

Business Day. The term "Business Day" means a day other than: a Saturday or Sunday or a day on which: (i) banks located in San Francisco are not required or authorized to remain closed; and (ii) the New York Stock Exchange is not closed.

Contracts. The term “Contracts” means and is limited to: (1) this Agreement and any amendments and supplements hereto; and (2) all contracts of the District hereto or hereafter authorized the Parity Payments with respect to which are payable from Net Revenues on a parity with the Refinancing Payments and which are secured by a pledge and lien on the Revenues as described in Section 5.01 hereof. As of the date of execution of this Agreement, there are no Contracts outstanding; but excluding in all cases contracts entered into for operation and maintenance of the Wastewater System.

Date of Operation. The term “Date of Operation” means, with respect to any uncompleted Parity Project, the estimated date by which such Parity Project will have been completed and, in the opinion of an engineer, will be ready for operation by or on behalf of the District.

Debt Service. The term “Debt Service” means, for any period of calculation, the sum of:

(1) the interest accruing during such period on all outstanding Bonds, assuming that all outstanding serial Bonds are retired as scheduled and that all outstanding term Bonds are prepaid or paid from sinking fund payments as scheduled (except to the extent that such interest is capitalized or is reasonably anticipated to be reimbursed to the City by the United States of America pursuant to Section 54AA of the Code (Section 1531 of Title I of Division B of the American Recovery and Reinvestment Act of 2009 (Pub. L. No. 111-5, 23 Stat. 115 (2009), enacted February 17, 2009)), or any future similar program);

(2) that portion of the principal amount of all outstanding serial Bonds maturing in such period or maturing in the next succeeding period accruing during such period, in each case computed as if such principal amounts were deemed to accrue daily during such period in equal amounts;

(3) that portion of the principal amount of all outstanding term Bonds required to be prepaid or paid in such period or during the next succeeding period in each case computed as if such principal amounts were deemed to accrue daily during such period in equal amounts; and

(4) that portion of the Contracts required to be made during such period or during the next succeeding period, in each case computed as if such payments on such Contracts were deemed to accrue daily during such period in equal amounts (except to the extent that the interest portion of such Contracts is capitalized);

provided that, as to any such Bonds or Contracts bearing or comprising interest at other than a fixed rate, the rate of interest used to calculate Debt Service shall be the greater of: (a) the actual interest rate on such Bonds or Contracts on the date of calculation, or if the indebtedness is not yet outstanding, the initial interest rate (if established and binding); (b) if the Bonds or Contracts have been outstanding for at least twelve months, the average rate over the twelve calendar months immediately preceding the date of calculation; and (c) (i) if interest on the indebtedness is excludable from gross income under the applicable provisions of the Code, the most recently published Securities Industry and Financial Markets Association Index for tax-exempt variable rate obligations; or (ii) if interest is not so excludable, the interest rate on direct U.S. Treasury Obligations with comparable maturities plus 50 basis points; provided, however, that for purposes of any portion of Section 5.03 (Additional Contracts and Bonds) and Section 6.13 (Amount of Rates and Charges), measuring actual debt service coverage during a test period, variable rate indebtedness shall be deemed to bear interest at the actual rate per annum applicable during the test period; and

provided further that, if any series or issue of such Bonds or Contracts have twenty-five percent (25%) or more of the aggregate principal amount of such series or issue due in any one year, Debt Service shall be determined for the Fiscal Year of determination as if the principal of and interest on such series or issue of such Bonds or Contracts were being paid from the date of incurrence thereof in substantially equal annual amounts over a period of twenty-five (25) years from the date of calculation; and

provided further that, as to any such Bonds or Contracts or portions thereof bearing no interest but which are sold at a discount and which discount accretes with respect to such Bonds or Contracts or portions thereof, such accreted discount shall be treated as interest in the calculation of Debt Service; and

provided further that, the amount on deposit in a debt service reserve fund on any date of calculation of Debt Service shall be deducted from the amount of principal due at the final maturity of the Bonds and Contracts for which such debt service reserve fund was established and in each preceding year until such amount is exhausted; and

provided further that, Debt Service shall not include interest which is paid from investment earnings on amounts on deposit in reserve funds and transferred to the Payment Fund.

Default Rate. The term “Default Rate” means the then applicable interest rate on the principal amount of the Refinancing Payments plus 3.0% per annum.

Determination of Taxability. The term “Determination of Taxability” means any determination, decision, or decree made by the Commissioner or any District Director of the Internal Revenue Service, or by any court of competent jurisdiction, that as a result of any actions or omissions of the District the interest component of the Refinancing Payments is includable in the gross income for federal income tax purposes of the Bank, provided, however, that no such Determination of Taxability shall be deemed to have occurred if the District is contesting such determination in good faith and is diligently proceeding to prosecute such contest until the earliest of (a) a final determination from which no appeal may be taken with respect to such determination, or (b) abandonment of such appeal by the District.

District. The term “District” means Forestville Water District, a special district duly organized and existing under and by virtue of the laws of the State of California, as successor to the Forestville County Sanitation District.

Event of Default. The term “Event of Default” means an event described in Section 8.01.

Excluded Principal. The term “Excluded Principal” means each payment of principal of any Bond or Contract for which there is on file with the Bank (i) a certificate of an Independent Municipal Consultant to the effect that such Bond or Contract is commercial paper or otherwise of a short term or revolving nature and has a maturity of less than 42 months and (ii) a certificate of an Authorized Representative to the effect that the District intends to pay such principal from the proceeds of Bonds or Contracts or other bonds, notes or other obligations of the District. No such determination shall affect the security for such Bonds or Contracts or the obligation of the District to pay such Bonds or Contracts from Net Revenues.

Fiscal Year. The term “Fiscal Year” means the period beginning on July 1 of each year and ending on the last day of June, or any other twelve-month period selected and designated as the official Fiscal Year of the District.

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

Hazardous Substances. The term “Hazardous Substances” means flammable explosives, polychlorinated biphenyl compounds, heavy metals, chlorinated solvents, cyanide, radon, petroleum products, asbestos (including in a friable form), methane, radioactive materials, pollutants, hazardous materials, hazardous wastes, hazardous, toxic, or regulated substances or related materials, as defined in CERCLA, RCRA, CWA, CAA, AHERA, TSCA and Title III, and the regulations promulgated pursuant thereto, and in all other Environmental Regulations applicable to the District.

Independent Certified Public Accountant. The term “Independent Certified Public Accountant” means any firm of certified public accountants appointed by the District, each of whom is independent of the District and the Bank pursuant to the Statement on Auditing Standards No. 1 of the American Institute of Certified Public Accountants.

Independent Municipal Consultant. The term “Independent Municipal Consultant” means a municipal advisor or firm of such municipal advisors appointed by the District, and who, or each of whom: (1) is in fact independent and not under domination of the District; (2) does not have any substantial interest, direct or indirect, with the District; (3) is registered as a “municipal advisor,” as defined in Section 15B of the Securities Exchange Act of 1934, as amended; and (4) is not connected with the District as an officer or employee thereof, but who may be regularly retained to make reports thereto.

Law. The term “Law” means the California Water District Law of the State of California (being Division 13 of the Water Code of the State of California, as amended), and all laws amendatory thereof or supplemental thereto, including but not limited to Article 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California.

Manager. The term “Manager” means the General Manager of the District, or any other person designated by the General Manager to act on behalf of the General Manager.

Material Adverse Effect. The term “Material Adverse Effect” means an event or occurrence which adversely affects in a material manner: (i) the assets, liabilities, condition (financial or otherwise), business, facilities or operations of the District; (ii) the ability of the District to carry out its business in the manner conducted as of the date of this Agreement or to meet or perform its obligations under this Agreement on a timely basis; (iii) the validity or enforceability of this Agreement; or (iv) the exclusion of interest with respect to the Refinancing Payments from gross income for federal income tax purposes or the exemption of such interest for state income tax purposes.

Material Litigation. The term “Material Litigation” means actions, suits or proceedings threatened against the District or any property of the District in any court or before any arbitrator of any kind or before or by any governmental or non-governmental body, which, in any case: (a) directly

or indirectly relates to the Wastewater System or the enforceability of this Agreement (b) involve claims equal to or in excess of \$500,000; or (c) may have a Material Adverse Effect.

Net Revenues. The term “Net Revenues” means, for any Fiscal Year, the Revenues for such Fiscal Year less the Operation and Maintenance Costs for such Fiscal Year.

Operation and Maintenance Costs. The term “Operation and Maintenance Costs” means costs spent or incurred for maintenance and operation of the Wastewater System calculated in accordance with Generally Accepted Accounting Principles, including, but not limited to, the reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Wastewater System in good repair and working order, and including administrative costs of the District that are charged directly or apportioned to the Wastewater System, including but not limited to salaries and wages of employees, payments to the District’s money purchase pension plan, overhead, insurance, taxes (if any), fees of auditors, accountants, attorneys, consultants or engineers and insurance premiums, and including all other reasonable and necessary costs of the District or charges (other than Debt Service) required to be paid by it to comply with the terms of this Agreement or any other Contract or of any resolution or indenture authorizing the issuance of any Bonds or of such Bonds; but excluding in all cases depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles, unrealized losses on investments, write off of the value of any unpaid assets or other bookkeeping entries of a similar nature.

Payment Date; Parity Payment Date. The term “Payment Date” means: (i) each February 1 and August 1, commencing February 1, 2023, or if said date is not a Business Day, then the preceding Business Day; or (ii) any other date upon which Refinancing Payments become due and payable, whether by acceleration, prepayment or otherwise. The term “Parity Payment Date” means each date on which Parity Payments are scheduled to be paid by the District under and pursuant to any Contract or on any Bond.

Permitted Investments. The term “Permitted Investments” means any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein:

(a) for all purposes, including but not limited to discharge of Refinancing Payments in accordance with Section 9.01: (1) cash (insured at all times by the Federal Deposit Insurance Corporation or otherwise collateralized with obligations described in paragraph (2) below); or (2) direct obligations of (including obligations issued or held in book entry form on the books of) the Department of the Treasury of the United States of America; and

(b) for all purposes other than discharge of Refinancing Payments in accordance with Section 9.01: (1) obligations of any of the following federal agencies which obligations represent full faith and credit of the United States of America, including the Export - Import Bank; Farmers Home Administration; General Services Administration; U.S. Maritime Administration; Small Business Administration; Government National Mortgage Association (GNMA); U.S. Department of Housing & Urban Development (PHAs); and Federal Housing Administration; (2) bonds, notes or other evidences of indebtedness rated “AAA” and “Aaa” by the applicable rating agency issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation with remaining maturities not exceeding three years; (3) U.S. dollar denominated deposit accounts, certificates of deposit, federal funds and banker’s acceptances with domestic commercial banks (including the Bank and its affiliates) which are either insured by the Federal Deposit Insurance

Corporation or have a rating on their short term certificates of deposit on the date of purchase of “A-1” or “A-1+” by S&P and maturing no more than 360 days after the date of purchase (ratings on holding companies are not considered as the rating of the bank); (4) commercial paper which is rated at the time of purchase in the single highest classification, “A-1+” by S&P and which matures not more than 270 days after the date of purchase; (5) investments in a money market fund rated “AAAm” or “AAAm G” or better by S&P, including such funds for which the Bank or an affiliate acts as investment advisor or provides other services; (6) pre-refunded municipal obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice and which are rated, based on the escrow, in the highest rating category of S&P or any successor thereto; (7) the State of California Local Agency Investment Fund and (8) any other investment approved in writing by the Bank.

Refinancing Payments; Parity Payments. The term “Refinancing Payments” means the Refinancing Payments of interest and principal scheduled to be paid by the District under and pursuant hereto. The term “Parity Payments” means the payments of interest and principal scheduled to be paid by the District under and pursuant to the Contracts or under any Bonds.

Refinancing Project; Parity Project. The term “Refinancing Project” has the meaning ascribed thereto in the first WHEREAS clause herein. The term “Parity Project” means any additions, betterments, extensions or improvements to the District’s Wastewater System designated by the Board of Directors of the District as a Parity Project, the acquisition and construction of which is to be paid for with the proceeds of any Contracts or Bonds.

Revenue Fund. The term “Revenue Fund” means those District accounts designated by the District as such, together with other accounts into which Revenues are currently deposited or any other accounts created in the future and designated by action of the Board of Directors as a part of the Revenue Fund by that name continued pursuant to Section 5.02 hereunder.

Revenues. The term “Revenues” means all income, rents, rates, fees, charges and other moneys derived from the ownership of or operation of the Wastewater System, including, without limiting the generality of the foregoing: (1) all income, rents, rates, fees, charges, business interruption insurance proceeds or other moneys derived by the District from the collection, treatment and disposal of wastewater or other services or facilities provided in the conduct or operation of the business of the Wastewater System; and (2) the earnings on and income derived from the investment of such income, rents, rates, fees, charges, proceeds or other moneys, including District reserves, but excluding in all cases: (x) customers’ deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the District; (y) any proceeds of taxes or benefit assessments restricted by law to be used by the District to pay amounts due on bonds or other obligations heretofore or hereafter incurred; and (z) any and all revenues derived from the ownership or operation of or in connection with, and pledged to, Separate Facilities.

Separate Facilities. The term “Separate Facilities” means any facilities acquired or financed by the District on or after the date hereof and which were not financed from the proceeds of Bonds or Contracts of the District having a parity claim on the Revenue Fund or Revenues.

Taxable Rate. The term “Taxable Rate” means an interest rate sufficient such that the total interest to be paid to the Bank on any Payment Date would, after such interest was reduced by the



amount of any U.S. federal, state and local income tax (including any interest or penalties) actually imposed thereon, equal the amount of interest due on the then unpaid principal amount of the Refinancing Payments; provided, however, that in no event shall the Taxable Rate exceed 12% per annum.

2001 Installment Sale Agreement. The term “2001 Installment Sale Agreement” has the meaning ascribed thereto in the second WHEREAS clause herein.

Wastewater Service. The term “Wastewater Service” means the wastewater collection and treatment service that is made available or provided by the Wastewater System.

Wastewater System. The term “Wastewater System” means the whole and each and every part of the wastewater system (including the recycled water storage and distribution system) of the District, including all real property and buildings whether owned or operated by the District or another party, including the portion thereof existing on the date hereof, and including all additions, betterments, extensions and improvements to such Wastewater System or any part thereof hereafter acquired or constructed, but not including any Separate Facilities.

Written Consent of the Bank or District, Written Order of the Bank or District, Written Request of the Bank or District, Written Requisition of the Bank or District. The terms “Written Consent of the Bank or District,” “Written Order of the Bank or District,” “Written Request of the Bank or District,” and “Written Requisition of the Bank or District” mean, respectively, a written consent, order, request or requisition signed by or on behalf of: (a) the Bank by its Authorized Representative; or (b) the District by the President of its Board of Directors or its Manager or by the Secretary of its Board of Directors or by any two persons (whether or not officers of the Board of Directors of the District) who are specifically authorized by resolution of the District to sign or execute such a document on its behalf.

## ARTICLE II

### REPRESENTATIONS AND WARRANTIES

**Section 2.01 Representations by the District.** The District makes the following representations:

(a) The District is a special district duly organized and existing under and pursuant to the laws of the State of California.

(b) The District has full legal right, power and authority to enter into this Agreement and carry out its obligations hereunder, to carry out and consummate all other transactions contemplated by this Agreement, and the District has complied with the provisions of the Law in all matters relating to such transactions.

(c) By proper action, the District has duly authorized the execution, delivery and due performance of this Agreement.

(d) The District will not take or, to the extent within its power, permit any action to be taken which results in the interest portion of the Refinancing Payments under the terms of this

Agreement being included in the gross income of the Bank for purposes of federal or State of California income taxation.

(e) The District has determined that it is necessary and proper for District uses and purposes within the terms of the Law that the District refinance the 2001 Installment Sale Agreement in the manner provided for in this Agreement, in order to provide essential services and facilities to persons residing in the District.

(f) The District has determined that it is necessary and proper for District uses and purposes within the terms of the Law that the District refinance the 2001 Installment Sale Agreement in the manner provided for in this Agreement.

(g) No consent, approval, authorization, order, filing, registration, qualification, election or referendum, of or by any court or governmental agency or public body whatsoever is required in connection with the delivery or sale of the Refinancing Payments or the consummation of the other transactions effected or contemplated herein or hereby. The District gives no representation or warranty with regard to compliance with Blue Sky or similar state or federal securities requirements.

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

(i) There is no action, suit, proceeding, inquiry or investigation before or by any court or federal, state, municipal or other governmental authority pending or, to the knowledge of the District after reasonable investigation, threatened against or affecting the District or the assets, properties or operations of the District which, if determined adversely to the District or its interests, would have a material and adverse effect upon the consummation of the transactions contemplated by or the validity of this Agreement or upon the financial condition, assets, properties or operations of the District, and the District is not in default with respect to any order or decree of any court or any order, regulation or demand of any federal, state, municipal or other governmental authority, which default might have consequences that would materially and adversely affect the consummation of the transactions contemplated by this Agreement, or the financial condition, assets, properties or operations of the District.

(j) The District is empowered to set rates and charges for Wastewater Service without review or approval by any state or local government agency.

(k) The District does not enjoy any rights of immunity on the grounds of sovereign immunity in respect of its obligations under this Agreement or otherwise with respect to the Refinancing Payments. To the extent the District has or hereafter may acquire under any applicable law any rights to immunity from legal proceedings on the grounds of sovereignty, the District hereby

waives, to the extent permitted by law, such rights to immunity for itself in respect of its obligations arising under or related to this Agreement or otherwise with respect to the Refinancing Payments.

(l) This Agreement and the pledge of Net Revenues is a first lien and pledge on Net Revenues.

(m) The statement of financial position of the Wastewater System as of June 30, 2021, and the related statement of activities and statement of cash flows and changes in financial position for the year then ended and the auditors' reports with respect thereto, copies of which have heretofore been furnished to the Bank, are complete and correct and fairly present the financial condition, changes in financial position and results of operations of the Wastewater System at such date and for such period, and were prepared in accordance with generally accepted accounting principles. Since the most current date of the information, financial or otherwise, supplied by the District to the Bank:

(i) there has been no change in the assets, liabilities, financial position or results of operations of the Wastewater System that might reasonably be anticipated to cause a Material Adverse Effect;

(ii) the Wastewater System has not incurred any obligations or liabilities which might reasonably be anticipated to cause a Material Adverse Effect; and

(iii) the Wastewater System has not: (A) incurred any material indebtedness, other than the Refinancing Payments or as previously disclosed to the Bank, and trade accounts payable arising in the ordinary course of the District's business and not past due; or (B) guaranteed the indebtedness of any other person.

(n) All information, reports and other papers and data furnished by an Authorized Representative of the District to the Bank were, at the time that the same were so furnished, complete and accurate in all material respects and insofar as necessary to give the Bank a true and accurate knowledge of the subject matter and were provided in expectation of the Bank's reliance thereon in entering into the transactions contemplated by this Agreement. No fact is known to the District which has had or, so far as the District can now reasonably foresee, may in the future have a Material Adverse Effect, which has not been set forth in the financial statements previously furnished to the Bank or in other such information, reports, papers and data or otherwise disclosed in writing to the Bank prior to the date hereof. Any financial, budget and other projections furnished to the Bank by an Authorized Representative of the District, or its agents, were prepared in good faith on the basis of the assumptions stated therein, which assumptions were fair and reasonable in light of the conditions existing at the time of delivery of such financial, budget or other projections, and represented, and as of the date of this representation, represent the District's best estimate of the Wastewater System's future financial performance. No document furnished nor any representation, warranty or other written statement made to the Bank in connection with the negotiation, preparation or execution of this Agreement contains or will contain any untrue statement of a material fact or omits or will omit to state (as of the date made or furnished) any material fact necessary in order to make the statements contained herein or therein, in light of the circumstances under which they were or will be made, not misleading.

(o) The District has structured fees, estimated revenues and/or taken other lawful actions necessary to ensure that the pledge of and lien on Revenues are sufficient to pay all Refinancing Payments when due and payable, and such moneys have been and will continue to be applied in the

funds and accounts as required herein and towards payment of all Refinancing Payments when due and payable.

(p) The District is not listed on the Specially Designated Nationals and Blocked Person List or other similar lists maintained by the U.S. Department of the Treasury's Office of Foreign Assets Control, and any successor thereto, the Secretary of the Treasury, or included in any Executive Orders, that prohibits or limits the Bank from making any advance or extension of credit to the District or from otherwise conducting business with the District.

(q) The District is in compliance with all applicable laws, except for noncompliance that, singly or in the aggregate, has not caused and could not reasonably be expected to cause a Material Adverse Effect or an adverse effect on the District's ability to perform its obligations hereunder.

(r) The District has reviewed the effect of Applicable Environmental Laws on the business, operations and properties of the District, and has identified and evaluated associated liabilities and costs (including, without limitation, any capital or operating expenditures required for cleanup or closure of properties presently or previously owned or operated, any capital or operating expenditures required to achieve or maintain compliance with environmental protection standards imposed by law or as a condition of any license, permit or contract, and related constraints on operating activities, including any periodic or permanent shutdown of any facility or reduction in the level of or change in the nature of operations conducted there at and any actual or potential liabilities to third parties, including employees, and any related costs and expenses). On the basis of this review, the District has reasonably concluded that it has not failed to comply with any Applicable Environmental Laws in a manner which may reasonably be expected to have a Material Adverse Effect.

(s) To the best of its knowledge, the District has never non-appropriated or defaulted under any of its payment or performance obligations or covenants, either under any financing lease of the same general nature as this Agreement, or under any of its bonds, notes, or other debt obligations. In addition, no Event of Default or default hereunder has occurred and is continuing or exists.

(t) The District does not enjoy any rights of immunity on the grounds of sovereign immunity in respect of its obligations under this Agreement. To the extent that the District has or hereafter may acquire under any applicable law any right to immunity from set-off or legal proceedings on the grounds of sovereignty, the District hereby waives, to the fullest extent permitted by law, such rights to immunity for itself in respect of its obligations arising under or related to this Agreement to which it is a party; provided that the Bank shall comply with the California Tort Claims Act (California Government Code Sections 810-996.6).

(u) There are currently no other payments owed by the District that constitute Parity Payments.

**Section 2.02 Representations and Warranties by the Bank.** The Bank makes the following representations and warranties:

(a) The Bank is a state chartered bank duly organized in the State of Oregon and in good standing under the laws of the State of California, has full legal right, power and authority to enter into this Agreement and to carry out and consummate all transactions contemplated by this Agreement and by proper action has duly authorized the execution and delivery and due performance of this Agreement.

(b) The execution and delivery of this Agreement and the consummation of the transactions herein contemplated will not violate any provision of law, any order of any court or other agency of government, or any indenture, material agreement or other instrument to which the Bank is now a party or by which it or any of its properties or assets is bound, or be in conflict with, result in a breach of or constitute a default (with due notice or the passage of time or both) under any such indenture, agreement or other instrument, or result in the creation or imposition of any prohibited lien, charge or encumbrance of any nature whatsoever upon any of the properties or assets of the Bank.

(c) The Bank will not take or permit any action to be taken which results in the interest portion of the Refinancing Payments under the terms of this Agreement being included in the gross income of the Bank for purposes of federal or State of California income taxation.

(d) There is no action, suit, proceeding, inquiry or investigation before or by any court or federal, state, municipal or other governmental authority pending or, to the knowledge of the Bank after reasonable investigation, threatened against or affecting the Bank or the assets, properties or operations of the Bank which, if determined adversely to the Bank or its interests, would have a material and adverse effect upon the consummation of the transactions contemplated by or the validity of this Agreement or upon the financial condition, assets, properties or operations of the Bank, and the Bank is not in default with respect to any order or decree of any court or any order, regulation or demand of any federal, state, municipal or other governmental authority, which default might have consequences that would materially and adversely affect the consummation of the transactions contemplated by this Agreement, or the financial condition, assets, properties or operations of the Bank.

**Section 2.03 No Financial Advisory or Fiduciary Relationship.** The District represents, warrants and covenants that: (i) the transaction contemplated herein is an arm's length commercial transaction between the District and the Bank, (ii) in connection with such transaction, the Bank and its affiliates are acting solely as a principal and not as an advisor including, without limitation, 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 (the "Municipal Advisor Rules"), an agent or a fiduciary of the District, (iii) the Bank and its affiliates are relying on the bank exemption in the Municipal Advisor Rules, (iv) the Bank and its affiliates have not provided any advice or assumed any advisory or fiduciary responsibility in favor of the District with respect to the transaction contemplated hereby and the discussions, undertakings and procedures leading thereto (whether or not the Bank, or any affiliate of the Bank, has provided other services or advised, or is currently providing other services or advising the District on other matters), (v) the Bank and its affiliates have financial and other interests that differ from those of the District or the Bank, and (vi) the District have consulted with its own financial, legal, accounting, tax and other advisors, as applicable, to the extent it deemed appropriate.

### ARTICLE III

#### REFINANCING PROJECT

**Section 3.01 Refinance of the Refinancing Project.** In consideration for the assistance of the Bank in refinancing the Refinancing Project, the District agrees to make the Refinancing Payments set forth in Exhibit A.

**Section 3.02 Use of Proceeds.** The Bank hereby agrees to advance to the District \$\_\_\_\_\_ to be used solely to refinance the 2001 Installment Sale Agreement in the amount of

\$ \_\_\_\_\_ and to pay the costs associated therewith in the amount of \$ \_\_\_\_\_. The proceeds shall be applied on August 1, 2022 pursuant to written instructions provided by the District to the Bank.

**Section 3.03 Refinancing Agreement Constitutes a Refunding Bond.** This Refinancing Agreement constitutes a “refunding bond” for purposes of this Refinancing Statute.

## ARTICLE IV

### REFINANCING PAYMENTS

#### **Section 4.01 Refinancing Payments.**

(a) The total Refinancing Payments to be paid by the District hereunder to the Bank is the sum of the principal amount of the District’s obligations hereunder plus the interest to accrue on the unpaid balance of such principal amount from the effective date hereof over the term hereof, subject to prepayment as provided in Article VII.

Upon the occurrence and continuance of an Event of Default, the interest to accrue on the unpaid balance of such principal amount shall accrue at the Default Rate.

Upon the occurrence of a Determination of Taxability, the interest to accrue on the unpaid balance of such principal amount shall accrue at the Taxable Rate.

(b) The principal amount of the payments to be made by the District hereunder is set forth in Exhibit A hereto.

(c) The interest to accrue on the unpaid balance of such principal amount is as specified in Section 4.02 and Exhibit A hereto, and shall be paid by the District as and constitute interest paid with respect to the principal amount of the District’s obligations hereunder.

**Section 4.02 Refinancing Payments.** The District shall, subject to any rights of prepayment provided in Article VII, pay the Bank the Refinancing Payments, composed of interest and principal components, in the amounts and on the Payment Dates as set forth in Exhibit A hereto.

Each Refinancing Payment shall be paid to the Bank in lawful money of the United States of America. In the event the District fails to make any of the payments required to be made by it under this section, such payment shall continue as an obligation of the District until such amount shall have been fully paid; and the District agrees to pay the same with interest accruing thereon at the rate or rates of interest then applicable to the remaining unpaid principal balance of the Refinancing Payments if paid in accordance with their terms.

Subject to Section 10.01 hereof, the obligation of the District to make the Refinancing Payments is absolute and unconditional, and until such time as the principal component of the Refinancing Payments shall have been paid in full (or provision for the payment thereof shall have been made pursuant to Article IX), the District will not discontinue or suspend any Refinancing Payments required to be made by it under this section when due, whether or not the Wastewater System or any part thereof is operating or operable, or its use is suspended, interfered with, reduced or curtailed or terminated in whole or in part, and such payments shall not be subject to reduction whether by offset or otherwise and shall not be conditional upon the performance or nonperformance by any party of any agreement for any cause whatsoever.

## ARTICLE V

### SECURITY

**Section 5.01 Pledge of Revenues.** All Revenues and all amounts on deposit in the Revenue Fund are hereby irrevocably pledged to the payment of the Refinancing Payments as provided herein, subject, however, to the pledge thereon securing Bonds or Contracts now in existence; and the Revenues shall not be used for any other purpose while any of the Refinancing Payments remain unpaid; provided that out of the Revenues there may be apportioned such sums for such purposes as are expressly permitted herein. This pledge, together with the pledge created by all other Contracts and Bonds, shall constitute a first lien on Revenues and, subject to application of Revenues and all amounts on deposit in the Revenue Fund as permitted herein, on the Revenue Fund and other funds and accounts created hereunder for the payment of the Refinancing Payments and all other Contracts and Bonds in accordance with the terms hereof.

Pursuant to Section 5451 of the Government Code of the State of California, the pledge of the Revenues by the District for the payment of the Refinancing Payments constitutes a pledge and lien which immediately attaches to such Revenues, and is effective, binding and enforceable against the District, its successors, creditors and all others asserting rights therein, to the extent set forth, and in accordance with, this Agreement, irrespective of whether those parties have notice of the pledge and without the need for physical delivery, recordation, filing or further act.

**Section 5.02 Allocation of Revenues.** In order to carry out and effectuate the pledge and lien contained herein, the District agrees and covenants that all Revenues shall be received by the District in trust hereunder and shall be deposited when and as received in a special fund designated as the "Revenue Fund," which fund is hereby continued and which fund the District agrees and covenants to maintain and to hold separate and apart from other funds so long as any Contracts or Bonds remain unpaid.

The District shall, from the moneys in the Revenue Fund, pay all Operation and Maintenance Costs (including amounts reasonably required to be set aside in contingency reserves for Operation and Maintenance Costs, the payment of which is not then immediately required) as such Operation and Maintenance Costs become due and payable. Thereafter all remaining moneys in the Revenue Fund shall be applied by the District at the following times for the transfer to the following respective special funds in the following order of priority; and all moneys in each of such funds shall be held in trust and shall be applied, used and withdrawn only for the purposes set forth in this Section.

(a) Refinancing Payments. Not later than each Payment Date, the District shall, from the moneys in the Revenue Fund, transfer to the Bank the portion of each Refinancing Payment due and payable on that Payment Date, and shall transfer to the applicable trustee for deposit in the respective payment fund, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, any other Debt Service in accordance with the provisions of any Bond or Contract.

(b) Reserve Funds. On or before each Payment Date the District shall, from the remaining moneys in the Revenue Fund, thereafter, without preference or priority and in the event of any insufficiency of such moneys ratably without any discrimination or preference, transfer for deposit in reserve funds and/or accounts, if any, as may have been established in connection with Bonds or

Contracts other than this Agreement, that sum, if any, necessary to restore such reserve funds to the required amount.

(c) Surplus. On the last day of each month, moneys on deposit in the Revenue Fund not necessary to make any of the payments required above may be expended by the District at any time for any purpose permitted by law, including but not limited to the payment of unpaid amounts due on obligations subordinate hereto.

**Section 5.03 Additional Contracts and Bonds.** The District may at any time execute any Contract or issue any Bonds, as the case may be, in accordance herewith; provided:

(a) The Net Revenues for either: (i) the most recent audited Fiscal Year; or (ii) twelve of the last eighteen months, in each case preceding the date of adoption by the Board of Directors of the District of the resolution authorizing the issuance of such Bonds or the date of the execution of such Contract, as the case may be, as evidenced by both a calculation prepared by the District and a special report prepared by an Independent Certified Public Accountant on such calculation on file with the District, shall have produced a sum equal to at least one hundred twenty percent (120%) of Debt Service paid in such Fiscal Year or twelve month period; and

(b) The Net Revenues for either: (i) the most recent audited Fiscal Year; or (ii) twelve of the last eighteen months, in each case preceding the date of the execution of such Contract or the date of adoption by the Board of Directors of the District of the resolution authorizing the issuance of such Bonds, as the case may be, including adjustments to give effect as of the first day of such Fiscal Year or twelve month period, as the case may be, to increases or decreases in rates and charges for the Wastewater Service approved and in effect as of the date of calculation, as evidenced by a calculation prepared by the District, shall have produced a sum equal to at least one hundred twenty percent (120%) of Debt Service paid in such Fiscal Year or twelve month period, as the case may be, plus the Debt Service which would have accrued on any Contracts executed or Bonds issued since the end of such Fiscal Year or twelve month period, as the case may be, assuming such Contracts had been executed or Bonds had been issued at the beginning of such Fiscal Year, plus the Debt Service which would have accrued had such Contract been executed or Bonds been issued at the beginning of such Fiscal Year or twelve month period, as the case may be; and

(c) The estimated Net Revenues for the then-current Fiscal Year and for each Fiscal Year thereafter to and including the first complete Fiscal Year after the latest Date of Operation of any uncompleted Parity Project, as evidenced by a certificate of the District, including (after giving effect to the completion of all such uncompleted Parity Projects) an allowance for estimated Net Revenues for each of such Fiscal Years arising from any increase in the income, rents, fees, rates and charges estimated to be fixed, prescribed or received for the Wastewater Service and which are economically feasible and reasonably considered necessary based on projected operations for such period, as evidenced by a certificate of the District, shall produce a sum equal to at least one hundred twenty percent (120%) of Debt Service payable for each of such Fiscal Years, after giving effect to the execution of all Contracts and the issuance of all Bonds estimated to be required to be executed or issued to pay the costs of completing all uncompleted Parity Projects within such Fiscal Years, assuming that all such Contracts and Bonds have maturities, interest rates and proportionate principal repayment provisions similar to the Contract last executed or then being executed or the Bonds last issued or then being issued for the purpose of acquiring and constructing any of such uncompleted Parity Projects; and



(d) No event of default hereunder has occurred and is continuing unless such event of default is cured through the execution of such Contract or issuance of such Bonds and the application of the proceeds thereof.

Notwithstanding the foregoing, Bonds or Contracts may be issued or incurred to refund outstanding Bonds or Contracts if, after giving effect to the application of the proceeds thereof, total Debt Service (including Bonds or Contracts outstanding on the date of issuance or incurrence of such refunding Bonds or Contracts, but excluding such Bonds or Contracts being refunded) will not be increased in any Fiscal Year in an amount in excess of 10%.

**Section 5.04 Investments.** All moneys held by the District in the Revenue Fund shall be invested in Permitted Investments and the investment earnings thereon shall remain on deposit in such fund, except as otherwise provided herein.

**Section 5.05 Additional Obligations – Senior and Subordinate.** The District shall not issue or incur any note, bond, contract or other obligation secured by a pledge or payable from the Net Revenues senior to the Refinancing Payments. Nothing herein shall limit the abilities of the District to issue or incur any note, bond, contract or other obligation secured by a pledge of or payable from the Net Revenues on a basis that is subordinate to the Refinancing Payments.

## ARTICLE VI

### COVENANTS OF THE DISTRICT

**Section 6.01 Compliance with Refinancing Agreement and Ancillary Agreements.** The District will punctually pay the Refinancing Payments in strict conformity with the terms hereof, and will faithfully observe and perform all the agreements, conditions, covenants and terms contained herein required to be observed and performed by it, and will not terminate this Agreement for any cause including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, destruction of or damage to the Wastewater System, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of California or any political subdivision of either or any failure of the Bank to observe or perform any agreement, condition, covenant or term contained herein required to be observed and performed by it, whether express or implied, or any duty, liability or obligation arising out of or connected herewith or the insolvency, or deemed insolvency, or bankruptcy or liquidation of the Bank or any force majeure, including acts of God, tempest, storm, earthquake, war, rebellion, riot, civil disorder, acts of public enemies, blockade or embargo, strikes, industrial disputes, lock outs, lack of transportation facilities, fire, explosion, or acts or regulations of governmental authorities.

It is expressly understood and agreed by and among the parties to this Agreement that, subject to Section 10.6 hereof, each of the agreements, conditions, covenants and terms contained in this Agreement is an essential and material term of the refinancing of the 2001 Installment Sale Agreement by the District pursuant to, and in accordance with, and as authorized under the Law.

**Section 6.02 Against Encumbrances.** The District will not make any pledge of or place any lien on any other Revenues or the moneys in the Revenue Fund senior to the lien created in Section 5.01 hereof. The District will not make any pledge of or place any lien on any other Revenues or the moneys in the Revenue Fund on a parity with the lien created in Section 5.01 hereof except as provided in Section 5.03. The District may at any time, or from time to time; (i) incur evidences of

indebtedness or incur other obligations for any lawful purpose which are payable from and secured by a pledge of or lien on Revenues or any moneys in the Revenue Fund as may from time to time be deposited therein, provided that such pledge and lien shall be subordinate in all respects to the pledge of and lien thereon provided herein; or (ii) execute Contracts or issue Bonds as permitted herein.

**Section 6.03 Against Sale or Other Disposition of Property.** The District will not enter into any agreement or lease which impairs the operation of the Wastewater System or any part thereof necessary to secure adequate Revenues for the payment of the Refinancing Payments, or which would otherwise impair the rights of the Bank hereunder or the operation of the Wastewater System. Any real or personal property which has become nonoperative or which is not needed for the efficient and proper operation of the Wastewater System, or any material or equipment which has become worn out, may be sold if such sale will not impair the ability of the District to pay the Refinancing Payments and if the proceeds of such sale are deposited in the Revenue Fund.

Nothing herein shall restrict the ability of the District to sell any portion of the Wastewater System if such portion is immediately repurchased by the District and if such arrangement cannot by its terms result in: (i) the purchaser of such portion of the Wastewater System exercising any remedy which would deprive the District of or otherwise interfere with its right to own and operate such portion of the Wastewater System; or (ii) the creation of a payment obligation of the District structurally or contractually senior to the obligation to make Refinancing Payments.

**Section 6.04 Against Competitive Facilities.** To the extent permitted by law, the District covenants that it will not acquire, construct, maintain or operate and will not, to the extent permitted by law and within the scope of its powers, permit any other public or private agency, corporation, district or political subdivision or any person whomsoever to acquire, construct, maintain or operate within the District any wastewater system competitive with the Wastewater System.

**Section 6.05 Tax Covenants.** Notwithstanding any other provision of this Agreement, absent an opinion of Special Counsel that the exclusion from gross income of the interest component of the Refinancing Payments will not be adversely affected for federal income tax purposes, the District and the Bank covenant to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income and specifically covenant, without limiting the generality of the foregoing, as follows:

(a) Private Activity. The District and the Bank will not take or omit to take any action or make any use of any proceeds of this Agreement or of any other moneys or property which would cause the Refinancing Payments to be “private activity bonds” within the meaning of Section 141 of the Code.

(b) Arbitrage. The District and the Bank will make no use of any proceeds of this Agreement or of any other amounts or property, regardless of the source, or take or omit to take any action which would cause the Refinancing Payments to be “arbitrage bonds” within the meaning of Section 148 of the Code.

(c) Federal Guarantee. The District and the Bank will make no use of any proceeds of this Agreement or take or omit to take any action that would cause the Refinancing Payments to be “federally guaranteed” within the meaning of Section 149(b) of the Code.

(d) Information Reporting. The District and the Bank will take or cause to be taken all necessary action to comply with the informational reporting requirements of Section 149(e) of the Code.

(e) Hedge Bonds. The District and the Bank will make no use of any proceeds of this Agreement or any other amounts or property, regardless of the source, or take any action or refrain from taking any action that would cause the Refinancing Payments to be considered “hedge bonds” within the meaning of Section 149(g) of the Code unless the District takes all necessary action to assure compliance with the requirements of Section 149(g) of the Code to maintain the exclusion from gross income of the interest component of the Refinancing Payments for federal income tax purposes.

(f) Bank Qualified. The District hereby designates this Agreement as “bank-qualified” for purposes of paragraph (3) of Section 265(b) of the 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 Code) from gross income for federal income tax purposes (excluding: (i) private activity bonds, as defined in Section 141 of the Code, except qualified 501(c)(3) bonds as defined in Section 145 of the Code; and (ii) current funding obligations to the extent that the amount of the refunding obligation does not exceed the outstanding amount of the refunded obligation), including this Agreement, has been or will be issued by the District, including all subordinate entities of the District, during the calendar year 2022.

(g) Miscellaneous. The District and the Bank will take no action, or omit to take any action, inconsistent with the expectations stated in any tax certificate executed in connection with the Refinancing Payments and will comply with the covenants and requirements stated therein and incorporated by reference herein.

This Section and the covenants set forth herein shall not be applicable to, and nothing contained herein shall be deemed to prevent the District and the Bank from causing to be executed and delivered Contracts or to issue Bonds, the interest with respect to which has been determined by Special Counsel not to be subject to federal income taxation.

**Section 6.06 Maintenance and Operation of the Wastewater System.** The District will maintain and preserve the Wastewater System in good repair and working order at all times and will operate the Wastewater System in an efficient and economical manner and will pay all Operation and Maintenance Costs as they become due and payable.

**Section 6.07 Payment of Claims.** The District will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien on the Revenues or the funds or accounts created hereunder or on any funds in the hands of the District pledged to pay the Refinancing Payments or to the Owners prior or superior to the lien of the Refinancing Payments or which might impair the security of the Refinancing Payments.

**Section 6.08 Compliance with Contracts.** The District will neither take nor omit to take any action under any contract if the effect of such act or failure to act would in any manner materially adversely impair the ability of the District to pay Refinancing Payments; and the District will comply with, keep, observe and perform all agreements, conditions, covenants and terms, express or implied, required to be performed by it contained in all other contracts affecting or involving the Wastewater System to the extent that the District is a party thereto.

### **Section 6.09 Insurance.**

(a) The District will procure and maintain or cause to be procured and maintained insurance on the Wastewater System with responsible insurers in such amounts and against such risks (including damage to or destruction of the Wastewater System) as are usually covered in connection with wastewater systems similar to the Wastewater System so long as such insurance is available from reputable insurance companies.

In the event of any damage to or destruction of the Wastewater System caused by the perils covered by such insurance, the net proceeds thereof shall be applied to the reconstruction, repair or replacement of the damaged or destroyed portion of the Wastewater System. The District shall begin such reconstruction, repair or replacement promptly after such damage or destruction shall occur, and shall continue and properly complete such reconstruction, repair or replacement as expeditiously as possible, and shall pay out of such net proceeds all costs and expenses in connection with such reconstruction, repair or replacement so that the same shall be completed and the Wastewater System shall be free and clear of all claims and liens.

If such net proceeds exceed the costs of such reconstruction, repair or replacement, then the excess net proceeds shall be applied by the District in any manner permitted by law, including but not limited to prepay the Refinancing Payments, in the manner provided in Section 7.01 herein.

The District shall procure and maintain or cause to be procured and maintained, with responsible insurers, public liability and worker's compensation insurance covering claims against the District (including its directors, officers and employees) for bodily injury or death, or damage to property occasioned by reason of the District's operations, including any use of the Wastewater System, and such insurance shall afford protection in such amounts as are usually covered in connection with operations similar to the Wastewater System; provided, that such insurance coverage may be satisfied under a self-insurance program which is actuarially sound.

(b) The District will procure and maintain such other insurance as it shall deem advisable or necessary to protect its interests and the interests of the Bank, which insurance shall afford protection in such amounts and against such risks as are usually covered in connection with wastewater systems similar to the Wastewater System.

(c) Any insurance required to be maintained by paragraph (a) above and, if the District determines to procure and maintain insurance pursuant to paragraph (b) above, such insurance, may be maintained through the participation by the District of an insurance program administered by a joint exercise of powers authority for public agencies.

All policies of insurance required to be maintained herein shall provide that the Bank shall be given thirty (30) days written notice of any intended cancellation thereof or reduction of coverage provided thereby.

### **Section 6.10 Accounting Records; Financial Statements and Other Reports.**

(a) The District will keep appropriate accounting records in which complete and correct entries shall be made of all transactions relating to the District, which records shall be available for inspection by the Bank at reasonable hours and under reasonable conditions.

(b) The District will prepare and file with the Bank annually within two hundred seventy (270) days after the close of each Fiscal Year (commencing with the Fiscal Year ending June 30, 2022) financial statements of the District for the preceding Fiscal Year prepared in accordance with Generally Accepted Accounting Principles, together with an Accountant's Report thereon.

(c) The District shall also provide the Bank with a copy of its budget within thirty (30) days after the adoption thereof.

(d) The District shall further provide the following to the Bank:

(i) Immediate notice by telephone, promptly confirmed in writing, of any event, action or failure to take any action which constitutes an Event of Default hereunder.

(ii) Prompt written notice of any Material Litigation.

(iii) Prompt written notice of any event which has or is reasonably anticipated to have a Material Adverse Effect.

**Section 6.11 Protection of Security and Rights of the Bank.** The District will preserve and protect the security hereof and the rights of the Bank to the Refinancing Payments hereunder and will warrant and defend such rights against all claims and demands of all persons.

**Section 6.12 Payment of Taxes and Compliance with Governmental Regulations.** The District will pay and discharge all taxes, assessments and other governmental charges which may hereafter be lawfully imposed upon the Wastewater System or any part thereof or upon the Revenues when the same shall become due. The District will duly observe and conform with all valid regulations and requirements of any governmental authority relative to the operation of the Wastewater System or any part thereof, but the District shall not be required to comply with any regulations or requirements so long as the validity or application thereof shall be contested in good faith.

**Section 6.13 Amount of Rates and Charges.**

(a) To the fullest extent permitted by law, the District shall fix and prescribe, at the beginning of each Fiscal Year, rates and charges (including land based charges) for the Wastewater Service provided by the Wastewater System which are reasonably expected to be at least sufficient to yield during each Fiscal Year Net Revenues equal to one hundred twenty percent (120%) of Debt Service payable during such Fiscal Year.

(b) The District may make adjustments from time to time in such rates and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates and charges then in effect unless the Net Revenues from such reduced rates and charges are reasonably expected to be sufficient to meet the requirements of this section.

(c) For avoidance of doubt, so long as the District has complied with its obligations set forth in Section 6.13(a) above, the failure of Net Revenues to meet the threshold set forth in Section 6.13(a) above at the end of a Fiscal Year shall not constitute a default or an Event of Default so long as the District has complied with Section 6.13(a) at the commencement of the succeeding Fiscal Year.

**Section 6.14 Collection of Rates and Charges.** The District will have in effect at all times by-laws, rules and regulations requiring each customer to pay the rates and charges applicable to the Wastewater Service and providing for the billing thereof and for a due date and a delinquency date for each bill.

**Section 6.15 Further Assurances.** The District will adopt, deliver, execute and make any and all further assurances, instruments and resolutions as may be reasonably necessary or proper to carry out the intention or to facilitate the performance hereof and for the better assuring and confirming unto the Bank of the rights and benefits provided to it herein.

**Section 6.16 Enforcement of Contracts.** The District will not voluntarily consent to or permit any rescission of, nor will it consent to any amendment to or otherwise take any action under or in connection with any contracts previously or hereafter entered into if such rescission or amendment would result in a default by the District in the payment of Refinancing Payments.

**Section 6.17 Budgets.** For each of its annual budgets, the District will take such action as may be necessary to cause such annual budget to include therein the amounts required to be raised by the District in the then ensuing Fiscal Year for the payment of Refinancing Payments due under this Agreement.

**Section 6.18 Observance of Laws and Regulations.** To the extent necessary to assure its performance hereunder, the District will well and truly keep, observe and perform all valid and lawful obligations or regulations now or hereafter imposed on it by contract, or prescribed by any law of the United States of America, or of the State, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of any and every right, privilege or franchise now owned or hereafter acquired by the District, respectively, including its right to exist and carry on its business, to the end that such contracts, rights and franchises shall be maintained and preserved, and shall not become abandoned, forfeited or in any manner impaired.

**Section 6.19 Compliance with Contracts.** The District shall comply with the terms, covenants and provisions, express or implied, of all contracts for the use of the Wastewater System by the District, and all other contracts and agreements affecting or involving the Wastewater System to the extent that the District is a party thereto.

**Section 6.20 Prosecution and Defense of Suits.** The District shall promptly, upon written request of the Bank, from time to time take such action as may be necessary or proper to remedy or cure any defect in or cloud upon the title to the Wastewater System or any part thereof, whether now existing or hereafter developing, shall prosecute all such suits, actions and other proceedings as may be appropriate for such purpose and shall indemnify and save the Bank harmless from all loss, cost, damage and expense, including attorneys' fees, which they or any of them may incur by reason of any such defect, cloud, suit, action or proceeding.

The District shall defend against every suit, action or proceeding at any time brought against the Bank upon any claim arising out of the receipt, application or disbursement of any of the Refinancing Payments or involving the rights of the Bank under this Agreement; provided that the Bank at its election may appear in and defend any such suit, action or proceeding. The District shall indemnify and hold harmless the Bank against any and all liability claimed or asserted by any person, arising out of such receipt, application or disbursement. The District shall promptly reimburse the

Bank in the full amount of any attorneys' fees or other expenses which the Bank may incur in litigation or otherwise in order to enforce such party's rights under this Agreement.

## ARTICLE VII

### PREPAYMENT OF REFINANCING PAYMENTS

#### Section 7.01 Prepayment.

(a) The District may prepay the principal component of Refinancing Payments, as a whole or in part, on any date, from insurance or condemnation awards with respect to damage, destruction or taking of a significant portion of the Wastewater System, at a prepayment price equal to the amount of the unpaid Refinancing Payments being prepaid plus accrued interest thereon to the date of prepayment, without premium.

(b) The District may prepay the principal component of the Refinancing Payments, in whole or in part, on any date, from any available funds other than insurance or condemnation awards with respect to damage, destruction or taking of a significant portion of the Wastewater System, at the following prepayment prices, expressed as a percentage of the principal amount to be redeemed, together with accrued interest thereon to the prepayment date:

<i>Prepayment Date</i>	<i>Prepayment Price</i>
Through and including July 31, 2025	103%
August 1, 2025 to and including July 31, 2028	102
August 1, 2028 to and including July 31, 2030	101
August 1, 2030 and any date thereafter	100

Notwithstanding any such prepayment, the District shall not be relieved of its obligations hereunder, including its obligations under Article IV, until the principal component of the Refinancing Payments shall have been fully paid (or provision for payment thereof shall have been provided to the written satisfaction of the Bank).

**Section 7.02 Method of Prepayment.** Before making any prepayment pursuant to Section 7.01, the District shall give written notice to the Bank specifying the date on which the Refinancing Payments will be paid, which date shall be not less than thirty (30) days from the date such notice is given. Such notice may be conditional in nature.

## ARTICLE VIII

### EVENTS OF DEFAULT AND REMEDIES OF THE CORPORATION

**Section 8.01 Events of Default and Acceleration of Refinancing Payments.** If one or more of the following Events of Default shall happen:

(a) if default shall be made by the District in the due and punctual payment of any Refinancing Payment or any Contract or Bond when and as the same shall become due and payable;

(b) if default shall be made by the District in the performance of any representation or of the other agreements or covenants required herein or in any Contract or Bond to be performed by it,

and such default shall have continued for a period of thirty (30) days after the District shall have been given notice in writing of such default by the Bank, provided, however, that if in the reasonable opinion of the District the default stated in the notice can be corrected, but not within such thirty (30) day period, and corrective action is instituted by the District within such thirty (30) day period and diligently pursued in good faith until the default is corrected, such default shall not be an Event of Default hereunder, provided, however, that such corrective shall be completed within 60 days after the notice received by the District, unless such 60 day period is otherwise extended in writing by the Bank;

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

(d) if payment of the principal of any Contract or Bond is accelerated in accordance with its terms;

then the Default Rate shall apply to the Refinancing Payments and in each and every such case during the continuance of such Event of Default specified above, the Bank may, by notice in writing to the District, declare the entire principal amount of the unpaid Refinancing Payments and the accrued interest thereon to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable, anything contained herein to the contrary notwithstanding. This subsection however, is subject to the condition that if at any time after the entire principal amount of the unpaid Refinancing Payments and the accrued interest thereon shall have been so declared due and payable and before any judgment or decree for the payment of the moneys due shall have been obtained or entered the District shall deposit with the Bank a sum sufficient to pay the unpaid principal amount of the Refinancing Payments and/or the unpaid payment of any other Contract or Bond referred to in clause (a) above due prior to such declaration and the accrued interest thereon, with interest on such overdue installments, at the rate or rates applicable to the remaining unpaid principal balance of the Refinancing Payments or such Contract or Bond if paid in accordance with their terms, and the reasonable expenses of the Bank, and any and all other defaults known to the Bank (other than in the payment of the entire principal amount of the unpaid Refinancing Payments and the accrued interest thereon due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Bank, or provision deemed by the Bank to be adequate shall have been made therefor, then and in every such case the Bank, by written notice to the District, may rescind and annul such declaration and its consequences; but 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 8.02 Application of Funds Upon Acceleration.** Upon the date of the declaration of acceleration as provided in Section 8.01, Revenues thereafter received shall be applied in the following order:

First, to the payment of the Operation and Maintenance Costs;

Second, to the payment of the fees, costs and expenses of the Bank, if any, including reasonable compensation to its accountants and counsel; and



Third, to the payment of the entire principal amount of the unpaid Refinancing Payments and the unpaid principal amount of all Bonds and Contracts and the accrued interest thereon, with interest on the overdue installments at the rate or rates of interest applicable to the Refinancing Payments and such Bonds and Contracts if paid in accordance with their respective terms.

**Section 8.03 Other Remedies of the Bank.** The Bank shall have the right:

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

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

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

Notwithstanding anything contained herein, the Bank shall not have a security interest in or mortgage on the Wastewater System or other assets of the District, and no default hereunder shall result in the loss of the Wastewater System or other assets of the District.

**Section 8.04 Non-Waiver.** Nothing in this article or in any other provision hereof shall affect or impair the obligation of the District, which is absolute and unconditional, to pay the Refinancing Payments to the Bank at the respective due dates or upon prepayment from the Net Revenues, the Revenue Fund and the other funds herein pledged for such payment, or shall affect or impair the right of the Bank, which is also absolute and unconditional, to institute suit to enforce such payment by virtue of the contract embodied herein.

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

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

**Section 8.05 Remedies Not Exclusive.** No remedy herein conferred upon or reserved to the Bank is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by the Law or any other law.

If any remedial action is discontinued or abandoned, the Bank shall be restored to its former position.

## ARTICLE IX

### DISCHARGE OF OBLIGATIONS

#### Section 9.01 Discharge of Obligations.

(a) When all or any portion of the Refinancing Payments shall have become due and payable in accordance herewith or a written notice of the District to prepay all or any portion of the Refinancing Payments shall have been filed with the Bank; and

(b) there shall have been deposited with the Bank at or prior to the Payment Dates or date (or dates) specified for prepayment, in trust for the benefit of the Bank or its assigns and irrevocably appropriated and set aside to the payment of all or any portion of the Refinancing Payments, sufficient moneys and non-callable Permitted Investments, issued by the United States of America and described in clause (a) of the definition thereof, the principal of and interest on which when due will provide money sufficient, without reinvestment, to pay all principal, prepayment premium, if any, and interest of such Refinancing Payments to their respective Payment Dates or prepayment date or dates as the case may be, as evidenced by a special report prepared by an Independent Certified Public Accountant addressed to the Bank;

then and in that event, the right, title and interest of the Bank herein and the obligations of the District hereunder shall, with respect to all or such portion of the Refinancing Payments as have been so provided for, thereupon cease, terminate, become void and be completely discharged and satisfied (except for the right of the Bank and the obligation of the District to have such moneys and such Permitted Investments applied to the payment of such Refinancing Payments, and the obligation of the District to pay any deficiency in such moneys and Permitted Investments).

Upon payment in full of the principal component of all Refinancing Payments plus interest thereon to the date of payment, the Bank shall pay over to the District as an overpayment of Refinancing Payments, all such moneys or such Permitted Investments held by it pursuant hereto other than such moneys and such Permitted Investments as are required for the payment or prepayment of the Refinancing Payments, which moneys and Permitted Investments shall continue to be held by the Bank in trust for the payment of the Refinancing Payments and shall be applied by the Bank to the payment of the Refinancing Payments of the District.

## ARTICLE X

### MISCELLANEOUS

**Section 10.01 Liability of District Limited.** The obligation of the District to make the Refinancing Payments is a special obligation of the District payable solely from the Net Revenues, and does not constitute a debt of the District or of the State of California or of any political subdivision thereof in contravention of any constitutional or statutory debt limitation or restriction. Notwithstanding anything contained herein, but subject to the priority payment with respect to Operation and Maintenance Costs, the District shall not be required to advance any moneys derived from any source of income other than the Revenues and the Revenue Fund for the payment of amounts

due hereunder or for the performance of any agreements or covenants required to be performed by it contained herein. The District may, however, advance moneys for any such purpose so long as such moneys are derived from a source legally available for such purpose and may be legally used by the District for such purpose.

**Section 10.02 Benefits of Refinancing Agreement Limited to Parties.** Nothing contained herein, expressed or implied, is intended to give to any person other than the District and the Bank, any right, remedy or claim under or pursuant hereto, and any agreement or covenant required herein to be performed by or on behalf of the District or the Bank shall be for the sole and exclusive benefit of the other party.

**Section 10.03 Successor Is Deemed Included in all References to Predecessor.** Whenever either the District or the Bank is named or referred to herein, such reference shall be deemed to include the successor to the powers, duties and functions that are presently vested in the District or the Bank, and all agreements and covenants required hereby to be performed by or on behalf of the District or the Bank shall bind and inure to the benefit of the respective successors thereof whether so expressed or not.

**Section 10.04 Waiver of Personal Liability.** No director, officer or employee of the District shall be individually or personally liable for the payment of the Refinancing Payments, but nothing contained herein shall relieve any director, officer or employee of the District from the performance of any official duty provided by any applicable provisions of law or hereby.

**Section 10.05 Article and Section Headings, Gender and References.** The headings or titles of the several articles and sections hereof and the table of contents appended hereto shall be solely for convenience of reference and shall not affect the meaning, construction or effect hereof, and words of any gender shall be deemed and construed to include all genders. All references herein to “Articles,” “Sections” and other subdivisions or clauses are to the corresponding articles, sections, subdivisions or clauses hereof; and the words “hereby”, “herein,” “hereof,” “hereto,” “herewith” and other words of similar import refer to this Agreement as a whole and not to any particular article, section, subdivision or clause hereof.

**Section 10.06 Partial Invalidity.** If any one or more of the agreements or covenants or portions thereof required hereby to be performed by or on the part of the District or the Bank shall be contrary to law, then such agreement or agreements, such covenant or covenants or such portions thereof shall be null and void and shall be deemed separable from the remaining agreements and covenants or portions thereof and shall in no way affect the validity hereof. The District and the Bank hereby declare that they would have executed this Agreement, and each and every other article, section, paragraph, subdivision, sentence, clause and phrase hereof irrespective of the fact that any one or more articles, sections, paragraphs, subdivisions, sentences, clauses or phrases hereof or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

**Section 10.07 Assignment.** This Agreement and any rights hereunder may be assigned by the Bank, as a whole or in part, without the necessity of obtaining the prior consent of the District.

**Section 10.08 Net Contract.** This Agreement shall be deemed and construed to be a net contract, and the District shall pay absolutely net during the term hereof the Refinancing Payments and all other payments required hereunder, free of any deductions and without abatement, diminution or set-off whatsoever.

**Section 10.09 California Law.** THIS AGREEMENT SHALL BE CONSTRUED AND GOVERNED IN ACCORDANCE WITH THE LAWS OF THE STATE OF CALIFORNIA.

**Section 10.10 Notices.** All written notices to be given hereunder shall be given by mail to the party entitled thereto at its address set forth below, or at such other address as such party may provide to the other party in writing from time to time, namely:

If to the District:                 Forestville Water District  
6530 Mirabel Road  
Forestville, California 95436  
Attention: General Manager

If to the Bank:                   Umpqua Bank  
2998 Douglas Blvd., Suite 100  
Roseville, California 95661  
Attention: Vanessa Ryan

**Section 10.11 Effective Date.** This Agreement shall become effective upon its execution and delivery, and shall terminate when the principal component of the Refinancing Payments shall have been fully paid (or provision for the payment thereof shall have been made to the written satisfaction of the Bank).

**Section 10.12 Execution in Counterparts.** This Agreement may be executed in several counterparts, each of which shall be deemed an original, and all of which shall constitute but one and the same instrument.

**Section 10.13 Amendments Permitted.** This Agreement and the rights and obligations of the Bank and the District may be modified or amended at any time by an amendment hereto which shall become binding upon execution thereof by the Bank and the District.

**Section 10.14 Waiver of Jury Trial; Agreement for Judicial Reference.** To the fullest extent permitted by law, the District hereby waives its right to trial by jury in any action, proceeding and/or hearing on any matter whatsoever arising out of, or in any way connected with, this Agreement or any related documents, or the enforcement of any remedy under any law, statute, or regulation.

To the extent the foregoing waiver of a jury trial is unenforceable under applicable State of California law, the District agrees to refer, for a complete and final adjudication, any and all issues of fact or law involved in any litigation or proceeding (including all discovery and law and motion matters, pretrial motions, trial matter and post-trial motions up to and including final judgment), brought to resolve any dispute (whether based on contract, tort or otherwise) between the parties hereto arising out of, in connection with or otherwise related or incidental to this Agreement to a judicial referee who shall be appointed under a general reference pursuant to California Code of Civil Procedure Section 638, which referee's decision will stand as the decision of the court. Such judgment will be entered on the referee's statement of judgment in the same manner as if the action had been tried by the court. The District and the Bank shall select a single neutral referee, who shall be a retired state or federal judge with at least five years of judicial experience in civil matters; provided that the event the District and the Bank cannot agree upon a referee, the referee will be appointed by the court.

**Section 10.15 Transfer.** This Agreement is not subject to transfer or assignment by the District without the prior written consent of the Bank. The District acknowledges that the Bank may transfer or assign this Agreement in whole and not in part provided that:

(a) the transferring holder thereof shall first have complied with all applicable state and federal securities laws and regulations;

(b) the transferring holder thereof can transfer this Agreement only to a transferee who executes and delivers to the District a letter of the transferee substantially in the form attached as Exhibit B and who qualifies as an:

(i) a qualified institutional buyer pursuant to Rule 144A of the 1933 Securities Act; or

(ii) an “accredited investor” within the meaning of Section 2(15) of the 1933 Securities Act; and

(c) the transferring holder thereof will not prepare or furnish, or cause to be prepared or furnished, any disclosure regarding the District without the prior review and written consent of the District, in the District’s sole discretion.

**Section 10.16 Restrictions on Agreement.** The District and the Bank understand that this Agreement shall not be, and the District and the Bank shall not cause this Agreement to be, (a) assigned a rating by any credit rating agency, (b) registered with The Depository Trust Company or any other securities depository, (c) offered pursuant to any type of offering document or official statement, (d) assigned a DTC-registered CUSIP number by Standard & Poor’s CUSIP Service or (e) listed on the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access website.

**Section 10.17 Expenses.** The District shall pay (or cause to be paid), and the Bank shall be under no obligation to pay, the costs of the execution and delivery of the Agreement, including but not limited to the following (i) the cost of the preparation and reproduction of the Resolution; (ii) the fees and disbursements of the following: Bond Counsel, Counsel to the Bank, the District’s General Counsel, any placement agent to the District or any Independent Municipal Consultant; (iii) the California Debt and Investment Advisory Commission fees; and (iv) all other fees and expenses incident to the execution and delivery of the Agreement. The Bank shall not have any responsibility for any expenses associated with the Agreement, including, but not limited to, the expenses identified above as the obligation of the District or the Bank.

*[SIGNATURES ON FOLLOWING PAGE.]*

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

**FORESTVILLE WATER DISTRICT**

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General Manager

**UMPQUA BANK**

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Authorized Officer

**EXHIBIT A**

**REFINANCING PAYMENTS**

1. The principal amount of Refinancing Payments to be made by the Forestville Water District hereunder is \$\_\_\_\_\_.

2. The Refinancing Payments of principal and interest are payable in the amounts and on the Payment Dates as follows:

<i>Refinancing Payment Date</i>	<i>Amount Attributable to Principal</i>	<i>Amount Attributable to Interest<sup>1</sup></i>	<i>Total</i>
February 1, 2023	\$	\$	\$
August 1, 2023			
February 1, 2024			
August 1, 2024			
February 1, 2025			
August 1, 2025			
February 1, 2026			
August 1, 2026			
February 1, 2027			
August 1, 2027			
February 1, 2028			
August 1, 2028			
February 1, 2029			
August 1, 2029			
February 1, 2030			
August 1, 2030			
February 1, 2031			
August 1, 2031			
February 1, 2032			
August 1, 2032			
February 1, 2033			
August 1, 2033			
February 1, 2034			
August 1, 2034			
February 1, 2035			
August 1, 2035			
February 1, 2036			
August 1, 2036			
February 1, 2037			
August 1, 2037			
February 1, 2038			
August 1, 2038			
February 1, 2039			
August 1, 2039			
February 1, 2040			
August 1, 2040			
February 1, 2041			
August 1, 2041			
<b>Total</b>	\$ _____	\$ _____	\$ _____

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<sup>1</sup> Interest amounts calculated at a rate of 3.45% per annum on the basis of a 360-day year comprised of twelve 30-day months and assuming no Default Rate or Taxable Rate is applicable.

**EXHIBIT B**

**FORM OF LENDER LETTER**

Forestville Water District  
6530 Mirabel Road  
Forestville, CA 95436

*Re:     \$ \_\_\_\_\_ Forestville Water District Refinancing Agreement*

Ladies and Gentlemen:

The undersigned, an authorized representative of \_\_\_\_\_, a \_\_\_\_\_ (the “Lender”), hereby represents and warrants to you as follows:

1.       The Lender is the [original purchaser/assignee] of the above-referenced agreement (the “Agreement”) approved pursuant to that certain Resolution adopted by the Board of Directors of the Forestville Water District (the “District”) on July \_\_, 2022 (the “Resolution”).

2.       The Lender has sufficient knowledge and experience in business and financial matters in general, and the lending to public agencies, to enable the Lender to evaluate the Agreement, the credit of the District, the collateral and the Agreement terms and that the Lender will make or has made its own independent credit analysis and decision to enter into the Agreement based on an independent examination and evaluation of the transaction and the information deemed appropriate, without reliance on the District or its affiliates, its directors, officers, employees, attorneys or agents.

3.       The Lender acknowledges that no official statement has been prepared in connection with the Agreement, that the execution and delivery of the Agreement is exempt from Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, pursuant to Section (d) of said Rule, and that the District will not be entering into a continuing disclosure agreement to provide ongoing disclosure respecting the Agreement or the security therefor. The Lender has been offered copies of or full access to all documents relating to the Agreement and all records, reports, financial statements and other information concerning the District and pertinent to the source of payments due under the Agreement as deemed material by the Lender, which the Lender has requested and to which the Lender would attach significance in making a transaction decision.

4.       The Lender confirms that its execution and delivery of the Agreement is suitable for and consistent with its loan portfolio and that the Lender is able to bear the economic risk of the execution and delivery of the Agreement, including a complete loss under the Agreement.

5.       The Lender is executing and delivering the Agreement for not more than one account, solely for its own loan account, and not with a present view to, or in connection with, any distribution, resale, pledging, fractionalization, subdivision or other disposition thereof (subject to the understanding that disposition of Lender’s property will remain at all times within its control). Because the Lender intends to treat the execution and delivery of the Agreement as a loan and hold the Agreement in its loan portfolio, the Lender has not directed or requested a CUSIP number for this transaction, or applied for eligibility with The Depository Trust Company (DTC).



6. The Lender understands that: (i) the Agreement: (a) has not been registered under the Securities Act of 1933 (the “Securities Act”); (b) has not been registered or qualified under any state securities or “Blue Sky” laws; (c) will not be listed on any stock or other securities exchange; (d) will carry no rating from any rating service specific to the Agreement at the request of the District (although similar securities of the District may carry ratings); and (e) due to a lack of a rating and lack of registration with a securities depository may not be readily marketable and the Lender will be required to bear the risk of an investment in the Agreement for a certain period of time; and (ii) this Agreement has not been qualified under the Trust Indenture Act of 1939, as amended.

7. The Lender has been furnished with and has examined the Agreement, the Resolution and other documents, certificates and the legal opinions delivered in connection with the execution and delivery of the Agreement.

8. The Lender is duly organized, validly existing and in good standing under the laws of the jurisdiction in which it was incorporated or formed. The person executing this letter on behalf of the Lender is duly authorized to do so on the Lender’s behalf.

9. The Lender is a “qualified institutional buyer” (a “Qualified Institutional Buyer”) within the meaning of Rule 144A promulgated under the Securities Act, or an institutional “accredited investor” (an “Institutional Accredited Investor”) as defined in Section 501(a)(1), (2), (3) or (7) of Regulation D promulgated under the Securities Act.

10. The Lender understands and agrees that interest in the Agreement may be transferred: (i) only to a Person that the Lender reasonably believes is either: (A) a Qualified Institutional Buyer that is receiving an interest in the Agreement for not more than one account, for their own account and not with a view to distributing such interest; or (B) an Institutional Accredited Investor that is receiving an interest in the Agreement for not more than one account and not with a view to distributing such interest; and (ii) only if such Qualified Institutional Buyer or Institutional Accredited Investor delivers to the District a completed and duly executed Lender Letter substantially in the form hereof. The Lender retains the right to participate its interests in the Agreement but only to Qualified Institutional Buyers or Institutional Accredited Investors.

11. Inasmuch as the Agreement represents a negotiated transaction, the Lender is not acting as a fiduciary of the District, but rather is acting solely in its capacity as the Lender, for its own loan account.

12. The Lender understands that the Agreement shall not be, and the Lender shall not cause the Agreement to be, (i) assigned a rating by any credit rating agency, (ii) registered with The Depository Trust Company or any other securities depository, (iii) offered pursuant to any type of offering document or official statement, (iv) assigned a DTC-registered CUSIP number by Standard & Poor’s CUSIP Service or (v) listed on the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access website.

13. The Lender understands that the District will rely upon the accuracy and truthfulness of the representations and warranties contained herein and hereby consents to such reliance.

14. No person has made any direct or indirect representation or warranty of any kind to the Lender with respect to the economic return which may accrue to the Lender. The Lender has consulted

with its own tax counsel and other advisors with respect to the investment represented by the Agreement.

IN WITNESS WHEREOF, the Lender has executed this Letter as of the date set forth below.

Dated: \_\_\_\_\_

Very truly yours,

**[LENDER]**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**Sources and Uses of Funds**  
**Forestville Water District**  
**2022 Refunding (USDA Loans 92-01, 92-03, & 92-04)**  
**Private Placement**

Dated Date    8/1/2022  
Delivery  
Date            8/1/2022

**Sources:**

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Bond Proceeds:	
Par Amount	2,126,700.00
	2,126,700.00

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**Uses:**

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Refunding Escrow Deposits:	
Cash Deposit	2,046,700.00
Delivery Date Expenses:	
Cost of Issuance	80,000.00
	2,126,700.00

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**Escrow Cost**

**Forestville Water District**

**2022 Refunding (USDA Loans 92-01, 92-03, & 92-04**

**Private Placement**

<i>Purchase Date</i>	<i>Cost of Securities</i>	<i>Cash Deposit</i>	<i>Total Escrow Cost</i>
8/1/2022		2,046,700.00	2,046,700.00
		2,046,700.00	2,046,700.00

**Escrow Requirements**  
**Forestville Water District**  
**Refunding (USDA Loans 92-01, 92-03, &**  
**Private Placement**

<i>Period</i>	<i>Principal</i>	
<i>Ending</i>	<i>Redeemed</i>	<i>Total</i>
8/1/2022	2,046,700.00	2,046,700.00
	2,046,700.00	2,046,700.00

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**Bond Summary Statistics**  
**Forestville Water District**  
**2022 Refunding (USDA Loans 92-01, 92-03, & 92-04)**  
**Private Placement**

Dated Date	8/1/2022
Delivery Date	8/1/2022
Last Maturity	8/1/2041
Arbitrage Yield	3.450000%
True Interest Cost (TIC)	3.450000%
Net Interest Cost (NIC)	3.450000%
All-In TIC	3.896187%
Average Coupon	3.450000%
Average Life (years)	10.893
Weighted Average Maturity (years)	10.893
Duration of Issue (years)	8.816
Par Amount	2,126,700.00
Bond Proceeds	2,126,700.00
Total Interest	799,198.11
Net Interest	799,198.11
Total Debt Service	2,925,898.11
Maximum Annual Debt Service	159,000.37
Average Annual Debt Service	153,994.64
Underwriter's Fees (per \$1000)	
Average Takedown	
Other Fee	
	-----
Total Underwriter's Discount	
Bid Price	100.000000

<i>Bond Component</i>	<i>Par Value</i>	<i>Price</i>	<i>Average Coupon</i>	<i>Average Life</i>
Bond Component	2,126,700.00	100.000	3.450%	10.893
	2,126,700.00			10.893

	TIC	All-In TIC	Arbitrage Yield	
	-----	-----	-----	
Par Value	2,126,700.00		2,126,700.00	2,126,700.00
+ Accrued Interest				
+ Premium (Discount)				
- Underwriter's Discount				
- Cost of Issuance Expense			-80,000.00	
- Other Amounts				
	-----	-----	-----	
Target Value	2,126,700.00		2,046,700.00	2,126,700.00
Target Date	8/1/2022		8/1/2022	8/1/2022
Yield	3.450000%		3.896187%	3.450000%

**Cost of Issuance**  
**Forestville Water District**  
**2022 Refunding (USDA Loans 92-01, 92-03, & 92-04)**  
**Private Placement**

<b><i>Cost of Issuance</i></b>	<b><i>\$/1000</i></b>	<b><i>Amount</i></b>
Placement Agent	10.57977	22,500.00
Municipal Advisor	10.57977	22,500.00
Bond Counsel	10.57977	22,500.00
Lender's Legal Counsel	4.70212	10,000.00
CDIAC	0.25000	531.68
Miscellaneous	0.92553	1,968.32
	<b>37.61697</b>	<b>80,000.00</b>

**Prior Bond Debt Service**  
**Forestville Water District**  
**2022 Refunding (USDA Loans 92-01, 92-03, & 92-04)**  
**Private Placement**  
**USDA Loan 92-01 (9201)**

<i>Period Ending</i>	<i>Principal</i>	<i>Coupon</i>	<i>Interest</i>	<i>Debt Service</i>	<i>Annual Debt Service</i>
2/1/2023			34,280.00	34,280.00	
8/1/2023	42,600	5.000%	34,280.00	76,880.00	111,160
2/1/2024			33,215.00	33,215.00	
8/1/2024	45,000	5.000%	33,215.00	78,215.00	111,430
2/1/2025			32,090.00	32,090.00	
8/1/2025	47,500	5.000%	32,090.00	79,590.00	111,680
2/1/2026			30,902.50	30,902.50	
8/1/2026	50,100	5.000%	30,902.50	81,002.50	111,905
2/1/2027			29,650.00	29,650.00	
8/1/2027	52,900	5.000%	29,650.00	82,550.00	112,200
2/1/2028			28,327.50	28,327.50	
8/1/2028	55,800	5.000%	28,327.50	84,127.50	112,455
2/1/2029			26,932.50	26,932.50	
8/1/2029	58,900	5.000%	26,932.50	85,832.50	112,765
2/1/2030			25,460.00	25,460.00	
8/1/2030	62,100	5.000%	25,460.00	87,560.00	113,020
2/1/2031			23,907.50	23,907.50	
8/1/2031	65,500	5.000%	23,907.50	89,407.50	113,315
2/1/2032			22,270.00	22,270.00	
8/1/2032	69,100	5.000%	22,270.00	91,370.00	113,640
2/1/2033			20,542.50	20,542.50	
8/1/2033	73,000	5.000%	20,542.50	93,542.50	114,085
2/1/2034			18,717.50	18,717.50	
8/1/2034	77,000	5.000%	18,717.50	95,717.50	114,435
2/1/2035			16,792.50	16,792.50	
8/1/2035	81,200	5.000%	16,792.50	97,992.50	114,785
2/1/2036			14,762.50	14,762.50	
8/1/2036	85,700	5.000%	14,762.50	100,462.50	115,225
2/1/2037			12,620.00	12,620.00	
8/1/2037	90,400	5.000%	12,620.00	103,020.00	115,640
2/1/2038			10,360.00	10,360.00	
8/1/2038	95,400	5.000%	10,360.00	105,760.00	116,120
2/1/2039			7,975.00	7,975.00	
8/1/2039	100,700	5.000%	7,975.00	108,675.00	116,650
2/1/2040			5,457.50	5,457.50	
8/1/2040	106,200	5.000%	5,457.50	111,657.50	117,115
2/1/2041			2,802.50	2,802.50	
8/1/2041	112,100	5.000%	2,802.50	114,902.50	117,705
	1,371,200		794,130.00	2,165,330.00	2,165,330



**Prior Bond Debt Service**  
**Forestville Water District**  
**2022 Refunding (USDA Loans 92-01, 92-03, & 92-04)**  
**Private Placement**  
**USDA Loan 92-03 (9203)**

<i>Period Ending</i>	<i>Principal</i>	<i>Coupon</i>	<i>Interest</i>	<i>Debt Service</i>	<i>Annual Debt Service</i>
2/1/2023			13,412.50	13,412.50	
8/1/2023	16,900	5.000%	13,412.50	30,312.50	43,725
2/1/2024			12,990.00	12,990.00	
8/1/2024	17,800	5.000%	12,990.00	30,790.00	43,780
2/1/2025			12,545.00	12,545.00	
8/1/2025	18,800	5.000%	12,545.00	31,345.00	43,890
2/1/2026			12,075.00	12,075.00	
8/1/2026	19,800	5.000%	12,075.00	31,875.00	43,950
2/1/2027			11,580.00	11,580.00	
8/1/2027	20,900	5.000%	11,580.00	32,480.00	44,060
2/1/2028			11,057.50	11,057.50	
8/1/2028	22,000	5.000%	11,057.50	33,057.50	44,115
2/1/2029			10,507.50	10,507.50	
8/1/2029	23,200	5.000%	10,507.50	33,707.50	44,215
2/1/2030			9,927.50	9,927.50	
8/1/2030	24,400	5.000%	9,927.50	34,327.50	44,255
2/1/2031			9,317.50	9,317.50	
8/1/2031	25,700	5.000%	9,317.50	35,017.50	44,335
2/1/2032			8,675.00	8,675.00	
8/1/2032	27,100	5.000%	8,675.00	35,775.00	44,450
2/1/2033			7,997.50	7,997.50	
8/1/2033	28,600	5.000%	7,997.50	36,597.50	44,595
2/1/2034			7,282.50	7,282.50	
8/1/2034	30,100	5.000%	7,282.50	37,382.50	44,665
2/1/2035			6,530.00	6,530.00	
8/1/2035	31,700	5.000%	6,530.00	38,230.00	44,760
2/1/2036			5,737.50	5,737.50	
8/1/2036	33,400	5.000%	5,737.50	39,137.50	44,875
2/1/2037			4,902.50	4,902.50	
8/1/2037	35,200	5.000%	4,902.50	40,102.50	45,005
2/1/2038			4,022.50	4,022.50	
8/1/2038	37,100	5.000%	4,022.50	41,122.50	45,145
2/1/2039			3,095.00	3,095.00	
8/1/2039	39,100	5.000%	3,095.00	42,195.00	45,290
2/1/2040			2,117.50	2,117.50	
8/1/2040	41,200	5.000%	2,117.50	43,317.50	45,435
2/1/2041			1,087.50	1,087.50	
8/1/2041	43,500	5.000%	1,087.50	44,587.50	45,675
	536,500		309,720.00	846,220.00	846,220

**Prior Bond Debt Service**  
**Forestville Water District**  
**2022 Refunding (USDA Loans 92-01, 92-03, & 92-04)**  
**Private Placement**  
**USDA Loan 92-04 (9204)**

<i>Period Ending</i>	<i>Principal</i>	<i>Coupon</i>	<i>Interest</i>	<i>Debt Service</i>	<i>Annual Debt Service</i>
2/1/2023			3,301.25	3,301.25	
8/1/2023	4,600	4.750%	3,301.25	7,901.25	11,202.50
2/1/2024			3,192.00	3,192.00	
8/1/2024	4,800	4.750%	3,192.00	7,992.00	11,184.00
2/1/2025			3,078.00	3,078.00	
8/1/2025	5,000	4.750%	3,078.00	8,078.00	11,156.00
2/1/2026			2,959.25	2,959.25	
8/1/2026	5,300	4.750%	2,959.25	8,259.25	11,218.50
2/1/2027			2,833.38	2,833.38	
8/1/2027	5,500	4.750%	2,833.38	8,333.38	11,166.76
2/1/2028			2,702.75	2,702.75	
8/1/2028	5,800	4.750%	2,702.75	8,502.75	11,205.50
2/1/2029			2,565.00	2,565.00	
8/1/2029	6,100	4.750%	2,565.00	8,665.00	11,230.00
2/1/2030			2,420.13	2,420.13	
8/1/2030	6,400	4.750%	2,420.13	8,820.13	11,240.26
2/1/2031			2,268.13	2,268.13	
8/1/2031	6,700	4.750%	2,268.13	8,968.13	11,236.26
2/1/2032			2,109.00	2,109.00	
8/1/2032	7,100	4.750%	2,109.00	9,209.00	11,318.00
2/1/2033			1,940.38	1,940.38	
8/1/2033	7,400	4.750%	1,940.38	9,340.38	11,280.76
2/1/2034			1,764.63	1,764.63	
8/1/2034	7,800	4.750%	1,764.63	9,564.63	11,329.26
2/1/2035			1,579.38	1,579.38	
8/1/2035	8,200	4.750%	1,579.38	9,779.38	11,358.76
2/1/2036			1,384.63	1,384.63	
8/1/2036	8,600	4.750%	1,384.63	9,984.63	11,369.26
2/1/2037			1,180.38	1,180.38	
8/1/2037	9,000	4.750%	1,180.38	10,180.38	11,360.76
2/1/2038			966.63	966.63	
8/1/2038	9,500	4.750%	966.63	10,466.63	11,433.26
2/1/2039			741.00	741.00	
8/1/2039	9,900	4.750%	741.00	10,641.00	11,382.00
2/1/2040			505.88	505.88	
8/1/2040	10,400	4.750%	505.88	10,905.88	11,411.76
2/1/2041			258.88	258.88	
8/1/2041	10,900	4.750%	258.88	11,158.88	11,417.76
	139,000		75,501.36	214,501.36	214,501.36

**Bond Debt Service**  
**Forestville Water District**  
**2022 Refunding (USDA Loans 92-01, 92-03, & 92-04)**  
**Private Placement**

<i>Period Ending</i>	<i>Principal</i>	<i>Coupon</i>	<i>Interest</i>	<i>Debt Service</i>	<i>Annual Debt Service</i>
2/1/2023	38,794	3.450%	36,685.58	75,479.58	
8/1/2023	38,794	3.450%	36,016.38	74,810.38	150,289.96
2/1/2024	40,298	3.450%	35,347.18	75,645.18	
8/1/2024	40,299	3.450%	34,652.04	74,951.04	150,596.22
2/1/2025	41,868	3.450%	33,956.88	75,824.88	
8/1/2025	41,869	3.450%	33,234.66	75,103.66	150,928.54
2/1/2026	43,501	3.450%	32,512.42	76,013.42	
8/1/2026	43,501	3.450%	31,762.03	75,263.03	151,276.45
2/1/2027	45,193	3.450%	31,011.64	76,204.64	
8/1/2027	45,193	3.450%	30,232.06	75,425.06	151,629.70
2/1/2028	46,942	3.450%	29,452.48	76,394.48	
8/1/2028	46,941	3.450%	28,642.73	75,583.73	151,978.21
2/1/2029	48,794	3.450%	27,833.00	76,627.00	
8/1/2029	48,794	3.450%	26,991.30	75,785.30	152,412.30
2/1/2030	50,646	3.450%	26,149.60	76,795.60	
8/1/2030	50,646	3.450%	25,275.96	75,921.96	152,717.56
2/1/2031	52,595	3.450%	24,402.32	76,997.32	
8/1/2031	52,596	3.450%	23,495.05	76,091.05	153,088.37
2/1/2032	54,689	3.450%	22,587.77	77,276.77	
8/1/2032	54,689	3.450%	21,644.39	76,333.39	153,610.16
2/1/2033	56,871	3.450%	20,701.00	77,572.00	
8/1/2033	56,871	3.450%	19,719.98	76,590.98	154,162.98
2/1/2034	59,086	3.450%	18,738.95	77,824.95	
8/1/2034	59,087	3.450%	17,719.72	76,806.72	154,631.67
2/1/2035	61,382	3.450%	16,700.47	78,082.47	
8/1/2035	61,382	3.450%	15,641.63	77,023.63	155,106.10
2/1/2036	63,804	3.450%	14,582.79	78,386.79	
8/1/2036	63,803	3.450%	13,482.17	77,285.17	155,671.96
2/1/2037	66,295	3.450%	12,381.57	78,676.57	
8/1/2037	66,294	3.450%	11,237.98	77,531.98	156,208.55
2/1/2038	68,950	3.450%	10,094.41	79,044.41	
8/1/2038	68,951	3.450%	8,905.02	77,856.02	156,900.43
2/1/2039	71,664	3.450%	7,715.61	79,379.61	
8/1/2039	71,665	3.450%	6,479.41	78,144.41	157,524.02
2/1/2040	74,482	3.450%	5,243.19	79,725.19	
8/1/2040	74,481	3.450%	3,958.37	78,439.37	158,164.56
2/1/2041	77,495	3.450%	2,673.58	80,168.58	
8/1/2041	77,495	3.450%	1,336.79	78,831.79	159,000.37
	2,126,700		799,198.11	2,925,898.11	2,925,898.11

**Bond Debt Service**  
**Forestville Water District**  
**2022 Refunding (USDA Loans 92-01, 92-03, & 92-04)**  
**Private Placement**

<i>Period Ending</i>	<i>Principal</i>	<i>Coupon</i>	<i>Interest</i>	<i>Debt Service</i>
8/1/2023	77,588	3.450%	72,701.96	150,289.96
8/1/2024	80,597	3.450%	69,999.22	150,596.22
8/1/2025	83,737	3.450%	67,191.54	150,928.54
8/1/2026	87,002	3.450%	64,274.45	151,276.45
8/1/2027	90,386	3.450%	61,243.70	151,629.70
8/1/2028	93,883	3.450%	58,095.21	151,978.21
8/1/2029	97,588	3.450%	54,824.30	152,412.30
8/1/2030	101,292	3.450%	51,425.56	152,717.56
8/1/2031	105,191	3.450%	47,897.37	153,088.37
8/1/2032	109,378	3.450%	44,232.16	153,610.16
8/1/2033	113,742	3.450%	40,420.98	154,162.98
8/1/2034	118,173	3.450%	36,458.67	154,631.67
8/1/2035	122,764	3.450%	32,342.10	155,106.10
8/1/2036	127,607	3.450%	28,064.96	155,671.96
8/1/2037	132,589	3.450%	23,619.55	156,208.55
8/1/2038	137,901	3.450%	18,999.43	156,900.43
8/1/2039	143,329	3.450%	14,195.02	157,524.02
8/1/2040	148,963	3.450%	9,201.56	158,164.56
8/1/2041	154,990	3.450%	4,010.37	159,000.37
	2,126,700		799,198.11	2,925,898.11

**Savings**  
**Forestville Water District**  
**2022 Refunding (USDA Loans 92-01, 92-03, & 92-04)**  
**Private Placement**

<i>Date</i>	<i>Prior Debt Service</i>	<i>Refunding Debt Service</i>	<i>Savings</i>	<i>Annual Savings</i>	<i>Present Value to 08/01/2022 @ 3.4500002%</i>
2/1/2023	50,993.75	75,479.58	-24,485.83		-24,070.61
8/1/2023	115,093.75	74,810.38	40,283.37	15,797.54	38,928.74
2/1/2024	49,397.00	75,645.18	-26,248.18		-24,935.39
8/1/2024	116,997.00	74,951.04	42,045.96	15,797.78	39,265.71
2/1/2025	47,713.00	75,824.88	-28,111.88		-25,807.82
8/1/2025	119,013.00	75,103.66	43,909.34	15,797.46	39,626.96
2/1/2026	45,936.75	76,013.42	-30,076.67		-26,683.07
8/1/2026	121,136.75	75,263.03	45,873.72	15,797.05	40,007.59
2/1/2027	44,063.38	76,204.64	-32,141.26		-27,555.84
8/1/2027	123,363.38	75,425.06	47,938.32	15,797.06	40,402.28
2/1/2028	42,087.75	76,394.48	-34,306.73		-28,423.31
8/1/2028	125,687.75	75,583.73	50,104.02	15,797.29	40,807.52
2/1/2029	40,005.00	76,627.00	-36,622.00		-29,321.22
8/1/2029	128,205.00	75,785.30	52,419.70	15,797.70	41,257.86
2/1/2030	37,807.63	76,795.60	-38,987.97		-30,165.82
8/1/2030	130,707.63	75,921.96	54,785.67	15,797.70	41,670.03
2/1/2031	35,493.13	76,997.32	-41,504.19		-31,032.81
8/1/2031	133,393.13	76,091.05	57,302.08	15,797.89	42,118.39
2/1/2032	33,054.00	77,276.77	-44,222.77		-31,953.59
8/1/2032	136,354.00	76,333.39	60,020.61	15,797.84	42,633.05
2/1/2033	30,480.38	77,572.00	-47,091.62		-32,882.28
8/1/2033	139,480.38	76,590.98	62,889.40	15,797.78	43,168.61
2/1/2034	27,764.63	77,824.95	-50,060.32		-33,779.76
8/1/2034	142,664.63	76,806.72	65,857.91	15,797.59	43,686.09
2/1/2035	24,901.88	78,082.47	-53,180.59		-34,678.53
8/1/2035	146,001.88	77,023.63	68,978.25	15,797.66	44,217.28
2/1/2036	21,884.63	78,386.79	-56,502.16		-35,605.51
8/1/2036	149,584.63	77,285.17	72,299.46	15,797.30	44,787.77
2/1/2037	18,702.88	78,676.57	-59,973.69		-36,522.25
8/1/2037	153,302.88	77,531.98	75,770.90	15,797.21	45,359.84
2/1/2038	15,349.13	79,044.41	-63,695.28		-37,484.23
8/1/2038	157,349.13	77,856.02	79,493.11	15,797.83	45,987.85
2/1/2039	11,811.00	79,379.61	-67,568.61		-38,426.51
8/1/2039	161,511.00	78,144.41	83,366.59	15,797.98	46,606.91
2/1/2040	8,080.88	79,725.19	-71,644.31		-39,374.25
8/1/2040	165,880.88	78,439.37	87,441.51	15,797.20	47,241.15
2/1/2041	4,148.88	80,168.58	-76,019.70		-40,373.95
8/1/2041	170,648.88	78,831.79	91,817.09	15,797.39	47,937.01
	3,226,051.36	2,925,898.11	300,153.25	300,153.25	206,633.91

**Savings Summary**

PV of savings from cash flow	206,633.91
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Net PV Savings	206,633.91

**Summary of Refunding Results**  
**Forestville Water District**  
**2022 Refunding (USDA Loans 92-01, 92-03, & 92-04)**  
**Private Placement**

Dated Date	8/1/2022
Delivery Date	8/1/2022
Arbitrage yield	3.450000%
Escrow yield	
Value of Negative Arbitrage	
Bond Par Amount	2,126,700.00
True Interest Cost	3.450000%
Net Interest Cost	3.450000%
Average Coupon	3.450000%
Average Life	10.893
Par amount of refunded bonds	2,046,700.00
Average coupon of refunded bonds	4.983209%
Average life of refunded bonds	11.563
PV of prior debt to 08/01/2022 @ 3.450000%	2,333,333.91
Net PV Savings	206,633.91
Percentage savings of refunded bonds	10.095955%
Percentage savings of refunding bonds	9.716176%

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Agenda Item:

**Debt Management Policy**

Summary:

**July 19, 2022**

Government Code section 8855(i) requires that public entities issuing debt certify to the California Debt and Investment Advisory Commission (CDIAC), that they have adopted Debt Management Policies, and that the proposed bond issuance complies with these adopted policies.

SB1029's requirement to adopt formal debt management policies became effective for bonds sold after January 1, 2017. The District does not have any public-issued debt outstanding nor issued any debt after the date this CDIAC requirement was implemented, as such they have not previously adopted debt management policies.

According to SB109, the Debt Management Policies must address 5 areas:

- A. Purposes for which the debt proceeds may be used.
- B. Types of debt that may be issued.
- C. Relationship of the debt to, and integration with, the District's CIP and/or budget
- D. Policy goals related to the District's planning goals and objectives.
- E. Internal control procedures that the District will implement to ensure that the proceeds of the proposed debt issuance will be directed to the intended use.

The attached Debt Management Policy has been written to include all elements required by CDIAC. These policies serve as a starting point that sets parameters for issuing debt and managing the Districts debt portfolio; should the District continue to issue debt, the District may incorporate additional elements over time.

The adoption of formal, written financial policies are viewed as a best management practice, and treated as a credit positive by the bond rating agencies. Adoption of the attached Debt Management Policy will help ensure that District's debt is issued and managed prudently; and will help the District to maintain a sound fiscal position. These policies should be view as a tool to provide guidance to staff and decision-makers in the future.

The policies should be reviewed and amended by Staff and the Board of Directors periodically and prior to the issuance of debt.

Potential Board Actions:

1. Approve Debt Management Policy
2. Postpone for further evaluation and discussion

Staff Recommendation: Approved the Debt Management Policy in its current form.

Report created by: Dawn Leith, Board Clerk

# DEBT MANAGEMENT POLICY

This Debt Management Policy (the "Debt Policy") of the Forestville Water District (the "District") was approved by its Board of Directors on **July 19, 2022**. The Debt Policy may be amended by the Board of Directors as it deems appropriate from time to time in the prudent management of its debt. Any approval of debt by the District Council that is not consistent with this Debt Policy shall constitute a waiver of this Debt Policy.

## 1. Findings

This Debt Policy is intended to comply with Government Code Section 8855(i), effective on January 1, 2017, and shall govern all debt undertaken by the District.

A debt management policy sets forth the guidelines for the issuance of debt and the management of outstanding debt. The Policy establishes parameters which recognize the District's specific capital requirements, its ability to repay financial obligations, and the existing legal, economic, financial and debt market conditions. Specifically, the Policy is intended to assist the District in the following:

- Maintaining the District's sound financial position
- Evaluating debt issuance options
- Ensure the District has the flexibility to respond to changes in future service priorities, revenue levels, and operating expenses
- Ensure that all debt is structured in order to protect both current and future taxpayers, customers and constituents of the District.
- Maintaining appropriate capital infrastructure to meet the District's present and future needs
- Ensure that the District's debt is consistent with the District's planning goals and objectives and capital improvement program or budgets, as applicable.
- Protecting and enhancing the District's credit rating; and
- Ensuring an effective system of internal controls and disseminating accurate and timely financial information.

## 2. Policies

The General Manager is the designated administrator of the Policy and shall have the day-to-day responsibility and authority for structuring, implementing, and managing the District's debt and finance program.

### A. Purposes For Which Debt May Be Issued

Debt may be issued to finance the construction, acquisition, and rehabilitation of capital improvements and facilities, equipment and land to be owned and operated by the District.

Debt financings are appropriate when the following conditions exist:

- When the project to be financed is necessary to provide basic services.



- When the project to be financed will provide benefit to constituents over multiple years.
- When total debt does not constitute an unreasonable burden to the District and its taxpayers and its customers.
- When the debt is used to refinance outstanding debt in order to produce debt service savings or to realize the benefits of a debt restructuring.

## **B. Types of Debt**

For purposes of this Debt Policy, “debt” shall be interpreted broadly to mean loans, bonds, notes, certificates of participation, financing leases, or other financing obligations, but the use of such term in this Debt Policy shall be solely for convenience and shall not be interpreted to characterize any such obligation as an indebtedness or debt within the meaning of any statutory or constitutional debt limitation where the substance and terms of the obligation comport with exceptions thereto.

The following types of debt are allowable under this Debt Policy:

- General obligation bonds or voter-approved financings (GO Bonds)
- Bond, Tax Revenue or Grant anticipation notes (BANs, TRANs, GANs)
- lease revenue bonds or certificates of participation (LRB, COPs)
- state or federal loans (I-Bank, DWR SRF, WIFIA, USDA)
- loans and lines of credit with banks / financial institutions (private placements)
- refunding of any of the prior listed obligations or other long-term prior financial commitments

Debt financings will not generally be considered appropriate for current operating expenses and routine maintenance expenses.

The District may contemplate the following elements of the debt structure:

*Final Maturity* - The final maturity of the debt shall not exceed, and preferably be less than, the remaining useful life of the assets being financed. To comply with Federal tax regulations, the average life of a financing shall not exceed 120% of the average life of the assets being financed.

*Debt Service* - Payments should be structured with level debt service payments over the life of the debt. The District may also structure the amortization of principal to wrap around existing obligations or backloaded to achieve other financial planning goals. In general, deferring the repayment of principal should be avoided except in select instances where it will take a period of time before project (dedicated) revenues are sufficient to pay debt service.

*Lien* - Senior and subordinate liens will be utilized in a manner that will maximize the most critical constraint, either cost or capacity, thus allowing for the most beneficial leverage of revenues.

*Capitalized Interest* - The District may elect to fund capitalized interest in connection with the construction of certain projects when revenues from the project will not be available until completion.

*Reserve Funds* – A debt service reserve fund (DSR) may be required for rating or marketing reasons. If available, a DSR can be funded with a surety policy. from 1) the proceeds of a debt issue or 2) the reserves of the District. A cash reserve fund will be invested pursuant to the investment restrictions associated with the respective financing documents. For each debt issue, staff will evaluate net borrowing cost of the financing with a DSR or surety policy, taking into consideration the investment of the DSR over the life of the issue.

*Redemption Provisions* – The District shall seek to structure each issue with an optional redemption or call provision, unless the final maturity is less than 10 years. Redemption provisions will be established on a case-by-case basis, taking into consideration market conditions and the results of a call option analysis prior to the time of sale. Because the issuance of non-callable debt may restrict future financial flexibility, cost will not be the sole determinant in the decision to issue non-callable debt.

*Ratings* - The District's objective is to maintain or improve its credit ratings as a way of reducing financing costs. The General Manager shall be responsible for implementing and managing the District's credit rating agencies relations program. This effort shall include providing the rating agencies with the District's annual budget, financial statements, and other information they may request. Staff should coordinate periodic meetings with the rating agencies and communicate with them prior to each debt issuance.

*Credit Enhancement* – Bond insurance will be used when it provides an economic advantage to a particular debt maturity or the entire issue. The District will evaluate the availability and cost/benefit of credit enhanced debt versus unenhanced debt prior to issuing any debt.

The District may from time to time find that other forms of debt would be beneficial to further its public purposes and may approve such debt without an amendment of this Debt Policy.

*Method of Sale* – Working in conjunction with its financial advisor, the District will select a method of sale: competitive sale, negotiated sale or private placement. The District will determine the most appropriate method taking into account size/structure/credit consideration, current capital market conditions, and other financial, transaction-specific and policy considerations.

Debt shall be issued as fixed rate debt unless the District makes a specific determination as to why a variable rate issue would be beneficial to the District in a specific circumstance.

*Variable Rate Debt* – The District shall seek to utilize long-term fixed rate bonds. However, the District may consider issuing variable rate bonds. In managing its variable rate debt, staff will regularly monitor the market for credit enhancement, particularly liquidity facilities provided by credit enhancement providers and alternative variable rate products and the use of alternative variable rate instruments that do not require credit enhancement. The District should seek to diversify its exposure to banks when selecting institutions to provide liquidity or credit enhancement for variable rate debt.

Short-term debt. Short-term debt may be issued to provide financing for the District's operational cash flows in order to maintain a steady and even cash flow balance. Short-term debt may also be used to finance short-lived capital projects; for example, the District may undertake lease-purchase financing for equipment.

### **C. Relationship of Debt to Capital Improvement Program and Budget**

The District intends to issue debt for the purposes stated in this Debt Policy and to implement policy decisions incorporated in the District's capital budget and the capital improvement plan.

The District shall strive to fund the upkeep and maintenance of its infrastructure and facilities due to normal wear and tear through the expenditure of available operating revenues.

The District shall seek to avoid the use of debt to fund infrastructure and facilities improvements that are the result of normal wear and tear.

The District shall integrate its debt issuances with the goals of its budget (and capital improvement costs) by timing the issuance of debt to ensure that proceeds are available when needed in furtherance of the District's public purposes.

The District shall seek to avoid the use of debt to fund infrastructure and facilities improvements in circumstances when the sole purpose of such debt financing is to reduce annual budgetary expenditures.

The District shall seek to issue debt in a timely manner to avoid having to make unplanned expenditures for capital improvements or equipment from its general fund.

### **D. Policy Goals Related to Planning Goals and Objectives**

The District is committed to long-term financial planning, maintaining appropriate reserve levels, and employing prudent practices in governance, management and budget administration. The District intends to issue debt for the purposes stated in this Policy and to implement policy decisions incorporated in the District's annual operations budget.

It is a policy goal of the District to protect taxpayers, ratepayers, customers, and constituents by utilizing conservative financing methods and techniques so as to obtain the highest practical credit ratings (if applicable) and the lowest practical borrowing costs.

The District will comply with applicable state and federal law as it pertains to the maximum term of debt and the procedures for levying and imposing any related taxes, assessments, rates and charges.

When refinancing debt, it shall be the policy goal of the District to do so either for the purpose of realizing debt service savings or for the purpose of restructuring debt in a manner which is in the best financial interests of the District.

The refinancing of debt for the purpose of realizing debt service savings should seek to achieve a minimum net present value debt service savings equal to or greater than 3.0% of the refunded principal amount. The 3.0% threshold should serve as a **guideline**; however, and not a hard rule. The District should take into consideration several factors, including unique financial circumstances or historically low interest rates, and limit term to maturity, when evaluating a refunding opportunity.

Moreover, the District may also decide to refinance outstanding bonds in order to meet certain policy/financial objectives, such as: removing restrictive covenants, reshaping debt profile or budgetary/cash flow relief.

## **E. Internal Control Procedures**

Use of Financial Advisor – In accord with the Government Finance Officers Association (GFOA) recommendation, the District should retain an independent registered municipal advisor (financial advisor) when it is contemplating the issuance of bonds (during the initial planning phase). The financial advisor shall assist the District in evaluating all financing options, assembling the other members of the financing team and facilitate the bond issuance process. The financial advisor shall provide objective advice and analysis, maintain confidentiality of District financial plans, and fully disclose any potential conflicts of interest.

The District will comply with all financing covenants to maintain the validity of the issuance of debt, including, but not limited to tax-exemption, arbitrage rebate compliance, insurance provisions, reporting and monitoring requirements.

**The District shall pay particular close attention (each year) to its annual debt service coverage level, which calculates the ratio of Net Revenues to the Annual Debt Service requirement (e.g., 120%).**

The District will ensure compliance with all continuing disclosure requirements as part of its ongoing debt program. Any instance of noncompliance will be reported to the Board of Directors.

The District will periodically review the requirements of and will remain in compliance with the following:

- any continuing disclosure undertakings under SEC Rule 15c2-12,
- any federal tax compliance requirements, including without limitation arbitrage and rebate compliance, related to any prior bond issues, and
- the District's investment policies as they relate to the investment of bond proceeds.

It is the policy of the District to ensure that proceeds of debt are spent only on lawful and intended uses. Whenever reasonably possible, proceeds of debt will be held by a third-party trustee and the District will submit written requisitions for such proceeds.

The District shall seek to borrow tax-exempt proceeds that can be reasonably spent within the IRS spending requirement approximately 85% within 3 years.

The District will submit a requisition only after obtaining the signature of the General Manager. In those cases where it is not reasonably possible for the proceeds of debt to be held by a third-party trustee, the person performing the function of chief financial officer of the District shall retain records of all expenditures of proceeds through the final payment date for the debt.

The Board acknowledges that changes in the capital markets and other unexpected events may, from time to time, create situations and opportunities that are not contemplated by this Policy and may require adjustments or exceptions to the guidelines of the Policy. In such circumstances, the ability of the District to be flexible is important; however, any authorization granted by the Board to proceed with a financing or financial product not expressly permitted by the Policy must be accompanied by an acknowledgement of the Board that the actions to be taken by the District are not specifically authorized by the Policy in force at that time. The Policy shall be initially adopted by the Board and reviewed annually. Future updates to the Policy require the approval by the Board.