

LOAN AGREEMENT

This Loan Agreement (this “Loan Agreement”), dated as of December 1, 2020, is between JPMorgan Chase Bank, N.A., a national banking association organized and existing under the laws of the United States of America (the “Lender”), and CARPINTERIA SANITARY DISTRICT, a sanitary district duly organized and existing under the laws of the State of California (the “District”).

BACKGROUND:

1. The District presently operates facilities and property for the collection, treatment and disposal of wastewater within its service area (the “Enterprise”).

2. The District is proceeding to acquire and construct certain improvements consisting of a new administrative office and board meeting room located at 5300 Sixth Street, Carpinteria, California (as further defined below, the “Project”).

3. For the purpose of raising funds necessary to finance the Project, the District has determined to borrow an amount up to \$4,000,000 (the “Loan”) from the Lender under this Loan Agreement, and to make Loan Repayments (as defined below) to the Lender, to be secured by a pledge of and lien on the Net Revenues of the Enterprise (as defined below), as set forth in this Loan Agreement.

4. The Loan shall be payable solely from Net Revenues of the Enterprise (as defined below), on a parity with installment payments made by the District under an Installment Sale Agreement dated as of December 1, 2012, by and between the District and the Coastal Districts Financing Authority, which was entered into to finance certain improvements to the Enterprise.

5. The District is authorized to enter into this Loan Agreement and to borrow amounts from the Lender for the foregoing purposes under the laws of the State of California, including the provisions of Section 6523.1 of the California Health and Safety Code (the “Law”).

AGREEMENT:

In consideration of the foregoing and the material covenants hereinafter contained, the District and the Lender formally covenant, agree and bind themselves as follows:

ARTICLE I

DEFINITIONS AND APPENDICES

SECTION 1.1. *Definitions.* All terms defined in this Section 1.1 have the meanings herein specified for all purposes of this Loan Agreement.

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

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

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

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

(a) the aggregate amount of the Loan Repayments coming due and payable in such Loan Year pursuant hereto; and

(b) the principal of and interest on all outstanding Parity Obligations coming due and payable by their terms in such Loan Year.

“Authorized Representative” means the President of the Board, Vice President of the Board, Secretary of the Board, Clerk of the Board, General Manager, or, in their absence, any other member of the Board, or the written designee of any of them.

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

“Business Day” means a day (other than a Saturday or a Sunday) on which banks are not required or authorized to remain closed in the state in which the office of the Lender is located, and on which the Federal Reserve Bank system is not closed.

“Closing Date” means the date of execution and delivery of this Loan Agreement by the District and the Lender, being December 18, 2020.

“District” means the Carpinteria Sanitary District, a sanitary district formed under the Sanitary District Act of 1923 of the State of California (constituting Part 1 of Division 6 of the California Health and Safety Code, commencing with Section 6400 of said Code).

“Enterprise” means the wastewater system of the District, including but not limited to all facilities, properties and improvements at any time owned or operated by the District for the collection, treatment and disposal of wastewater from residents served thereby, and any necessary lands, rights, entitlements and other property useful in connection therewith, together with all extensions thereof and improvements thereto hereafter acquired, constructed or installed by the District.

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

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

“Gross Revenues” means all gross charges received for, and all other gross income and receipts derived by the District from, the ownership and operation of the Enterprise or otherwise arising from the Enterprise, including but not limited: to investment earnings thereon; Subsidy Payments (except as otherwise set forth in the 2012 Installment Sale Agreement); and connection fees, developer impact fees and other one-time revenues, to the extent legally available; but *excluding*

(a) the proceeds of any ad valorem property taxes levied for the purpose of paying general obligation bonds of the District relating to the Enterprise, and

(b) the proceeds of any special assessments or special taxes levied upon real property served by the District levied for the purpose of paying special assessment bonds or special tax obligations of the District.

“Lender” means JPMorgan Chase Bank, N.A., a national banking association duly organized and existing under the laws of the United States of America, or its successors or assigns.

“Loan” means the loan made by the Lender to the District under Section 3.1, in the maximum principal amount of \$4,000,000, and in the final amount to be established by the Lender and the District in accordance with Section 3.1.

“Loan Agreement” means this Loan Agreement, dated as of December 1, 2020, between the Lender and the District, as it may be amended from time-to-time in accordance with the terms hereof.

“Loan Repayment Date” means February 1 and August 1 of each year, commencing August 1, 2021, and continuing to and including the date on which the Loan Repayments are paid in full. If a Loan Repayment Date is not a Business Day, the Loan Repayment due on such date shall be due on the next Business Day.

“Loan Repayments” means all payments required to be paid by the District under Section 3.5, including any prepayment thereof under Sections 6.1 or 6.2.

“Loan Year” means each twelve-month period extending from August 2 in one calendar year to August 1 of the succeeding calendar year, both dates inclusive; except that the first Loan Year commences on the Closing Date and extends to and including August 1, 2021.

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

(a) the aggregate amount of the Loan Repayments coming due and payable in such Loan Year pursuant hereto;

(b) the principal of all outstanding Parity Obligations coming due and payable by their terms in such Loan Year; and

(c) the amount of interest that would be due during such Loan Year on the aggregate principal amount of all outstanding Parity Obligations that would be outstanding in such Loan Year if such Parity Obligations are retired as scheduled.

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

“Operation and Maintenance Costs” means the reasonable and necessary costs and expenses paid by the District for maintaining and operating the Enterprise, including but not limited to

(a) costs of utilities, including the costs of electricity and other forms of energy supplied to the Enterprise,

(b) the reasonable expenses of management and repair and other costs and expenses necessary to maintain and preserve the Enterprise in good repair and working order, and

(c) the reasonable administrative costs of the District attributable to the operation and maintenance of the Enterprise, including insurance and other costs described in this Loan Agreement;

but in all cases excluding

(i) debt service payable on obligations incurred by the District with respect to the Enterprise, including but not limited to the Loan Repayments and Parity Obligations,

(ii) depreciation, replacement and obsolescence charges or reserves therefor,

(iii) capital expenditures (other than as set forth in paragraph (b) above), and

(iv) amortization of intangibles or other bookkeeping entries of a similar nature.

“Parity Obligations” means (a) the 2012 Installment Sale Agreement, and (b) any future bonds, notes or other obligations of the District payable from and secured by a pledge of and lien

upon any of the Net Revenues on a parity with the Loan Repayments, which are issued or incurred in accordance with Section 4.7.

“Project” means, collectively, (a) the acquisition and construction of a new District administrative office and board meeting room, and (b) other capital improvements to the Enterprise undertaken by the District, as the description of the “Project” may be amended by the District via written notice to the Lender from time-to-time.

“Project Costs” means all costs and expenses relating to the Project, including but not limited to the following:

- (a) all costs required to be paid to any person under the terms of any agreement for or relating to the acquisition, construction and installation of the Project,
- (b) obligations incurred or assumed for labor, materials and equipment in connection with the Project,
- (c) the costs of performance, labor and material bonds or insurance of all kinds that may be required or necessary during the course of constructing or equipping the Project, to the extent not purchased by contractors or subcontractors for the Project,
- (d) all costs of engineering, environmental and architectural services, including the actual out-of-pocket costs for test borings, surveys, estimates, plans and specifications and preliminary investigations therefor, development fees, sales commissions, and for supervising construction, as well as for the performance of all other duties required by or consequent to the proper acquisition, construction and installation of the Project,
- (e) all costs incurred in preparing or obtaining permits or approval from regulatory agencies in connection with the Project and the constructing and equipping of the Project,
- (f) all expenses incurred in connection with the authorization, execution and delivery of this Loan Agreement, including, without limitation, District overhead and administrative expenses, and the fees and costs of Special Counsel, District general counsel, counsel to the Lender, municipal advisor, placement agent and other professional services, and the fees of the California Debt and Investment Advisory Commission (“CDIAC”),
- (f) any sums required to reimburse the District for advances made for any of the above items or for any other costs incurred and for work done which are properly chargeable to the acquisition, construction and installation of the Project,
- (h) all other costs considered to be a part of the costs of the Project in accordance with generally accepted accounting principles and which will not affect the exemption from federal income taxes of interest on any of the Loan Repayments.

“Special Counsel” means (a) Jones Hall, A Professional Law Corporation, or (b) any other attorney or firm of attorneys retained by the District, of nationally recognized expertise with respect to legal matters relating to obligations the interest on which is excludable from gross income under Section 103 of the Tax Code.

“Subsidy Payments” means the amount of interest on any Parity Obligation that is reasonably anticipated to be reimbursed to the District by the United States of America.

“Tax Code” means the Internal Revenue Code of 1986 as in effect on the Closing Date or (except as otherwise referenced herein) as it may be amended to apply to obligations issued on the Closing Date, together with applicable proposed, temporary and final regulations promulgated, and applicable official public guidance published, under the Tax Code.

“Term of this Loan Agreement” or “Term” means the time during which this Loan Agreement is in effect, as provided in Section 3.3.

“2012 Installment Sale Agreement” means the Installment Sale Agreement dated as of December 1, 2012, by and between the District and the Coastal Districts Financing Authority.

“Wastewater Enterprise Fund” means the fund or funds previously established and held by the District for the receipt and deposit of Gross Revenues.

ARTICLE II

REPRESENTATIONS, COVENANTS AND WARRANTIES

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

- (a) Due Organization and Existence. The District is a sanitary district, duly organized and existing under the laws of the State of California.
- (b) Authorization. The laws of the State of California, including the Law, authorize the District to enter into this Loan Agreement, to enter into the transactions contemplated hereby and to carry out its obligations hereunder, and the Board has duly authorized the execution and delivery of this Loan Agreement.
- (c) Due Execution. The representatives of the District executing this Loan Agreement have been fully authorized to execute the same under a resolution duly adopted by the Board.
- (d) Consents and Approvals. No consent or approval of any trustee or holder of any indebtedness of the District or of the voters of the District, and no consent, permission, authorization, order or license of, or filing or registration with, any governmental authority is necessary in connection with the execution and delivery of this Loan Agreement, or the consummation of any transaction herein contemplated, except as have been obtained or made and as are in full force and effect.

- (e) No Violations. Neither the execution and delivery of this Loan Agreement, nor the fulfillment of or compliance with the terms and conditions hereof, nor the consummation of the transactions contemplated hereby, conflicts with or results in a breach of the terms, conditions or provisions of any restriction or any agreement or instrument to which the District is now a party or by which the District is bound, or constitutes a default under any of the foregoing, or results in the creation or imposition of any lien, charge or encumbrances whatsoever upon any of the property or assets of the District, other than as set forth herein.
- (f) No Senior Indebtedness. The District has not issued or incurred any obligations which are currently outstanding having any priority in payment out of the Gross Revenues or the Net Revenues over the payment of the Loan Repayments as provided herein.
- (g) Financial Condition. The financial statements of the District for the year ended June 30, 2019, supplied to the Lender (i) were prepared in accordance with generally accepted accounting principles, consistently applied, and (ii) fairly present the District's financial condition as of the date of the statements. Other than as described in such financial statements or otherwise disclosed to the Lender, there has been no material adverse change in the District's financial condition subsequent to June 30, 2019.
- (h) 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 among the District and the Lender and its affiliates, (ii) in connection with such transaction, the Lender 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"), agent or a fiduciary of the District, (iii) the Lender and its affiliates are relying on the bank exemption in the Municipal Advisor Rules, (iv) the Lender 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 Lender, or any affiliate of the Lender, has provided other services or advised, or is currently providing other services or advising the District on other matters), (v) the Lender and its affiliates have financial and other interests that differ from those of the District, and (vi) the District has consulted with their own financial, legal, accounting, tax and other advisors, as applicable, to the extent it deemed appropriate.

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

- (a) Due Organization and Existence. The Lender is a national banking association duly organized and validly existing under the laws of the United States of America; has the power and authority to enter into this Loan Agreement; is possessed of full power to make the Loan as provided herein.

- (b) Enforceability. Assuming due authorization, execution and delivery by the District, this Loan Agreement will constitute the legal, valid and binding agreement of the Lender, enforceable in accordance with its terms, except as enforceability may be limited by bankruptcy, reorganization, insolvency and other similar laws affecting enforcement of creditors' rights generally and by the application or equitable principles if equitable remedies are sought.

ARTICLE III

TERMS OF LOAN

SECTION 3.1. *Obligation to Make Loan; Amount of Loan*. The Lender hereby agrees to lend to the District the aggregate principal amount of \$4,000,000 under the terms and provisions set forth in this Loan Agreement. The Loan shall be disbursed by the Lender to the District on the Closing Date by wire transfer in accordance with written instructions provided by the District to the Lender. The District shall use the proceeds of the Loan for the purposes set forth in Section 3.2.

SECTION 3.2. *Application of Loan Proceeds; Project Fund*.

(a) The District shall deposit the proceeds of the Loan (\$4,000,000) in the "Project Fund," which shall be established and held by the District. Amounts on deposit in the Project Fund shall be used solely for the payment or reimbursement of Project Costs. The District shall maintain accurate records showing all disbursements from the Project Fund.

(b) The fees and disbursements of counsel to the District, the fees and disbursements of the placement agent, fees of CDIAC, fees of Lender's counsel, and other miscellaneous expenses of the District incurred in connection with this Loan Agreement (if any) shall all be the obligation of the District. The Lender shall have no responsibility for any expenses incurred by the District associated with this Loan Agreement, including, but not limited to, the expenses identified above as the obligation of the District.

(c) Amounts on deposit in the Project Fund shall be invested in any investment in which the District is authorized to hold funds, and shall be acquired and valued in accordance with Section 4.11(g). All investment earnings on the Project Fund shall be retained in the Project Fund and used for the purposes thereof.

(d) Upon the District's determination that the Project has been completed, the District apply any remaining amounts in the Project Fund to the payment of the interest component of the Loan Repayments next coming due, and thereupon shall close the Project Fund.

SECTION 3.3. *Term*. The Term of this Loan Agreement commences on the Closing Date, and ends on the date on which the Loan is paid in full or provision for such payment is made as provided herein.

SECTION 3.4. *[Reserved]*

SECTION 3.5. *Loan Repayments.*

(a) Obligation to Pay. The District hereby agrees to repay the Loan to the Lender in the aggregate principal amount of \$4,000,000, together with interest on the unpaid principal balance thereof.

(b) Payments. Interest on the unpaid principal balance of the Loan shall be calculated at a rate of interest of 1.77% on the basis of a 360-day year of twelve 30-day months, and the Loan Repayments shall be payable in semi-annual Loan Repayments on each Loan Repayment Date. The schedule of Loan Repayments is set forth on Appendix A.

(c) Optional Prepayment. The Loan is subject to optional prepayment in accordance with Section 6.1.

(d) Effect of Prepayment. If the District prepays the Loan Repayments in full, the District's obligations under this Loan Agreement shall thereupon cease and terminate, including but not limited to the District's obligation to pay Loan Repayments under this Section 3.5.

SECTION 3.6. *Nature of District's Obligations.*

(a) Special Obligation. The District's obligation to pay the Loan Repayments is a special obligation of the District limited solely to the Net Revenues and from amounts pledged by the District under Section 3.7. Under no circumstances is the District required to advance moneys derived from any source of income other than the Net Revenues and other sources specifically identified herein for the payment of the Loan Repayments, and no other funds or property of the District are liable for the payment of the Loan Repayments. Notwithstanding the foregoing provisions of this Section, however, nothing herein prohibits the District voluntarily from making any payment hereunder from any source of available funds of the District.

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

- (i) will not suspend or discontinue payment of any Loan Repayments,
- (ii) will perform and observe all other agreements contained in this Loan Agreement, and
- (iii) will not terminate this Loan Agreement for any cause, including, without limiting the generality of the foregoing, the occurrence of any acts or circumstances that may constitute failure of consideration, eviction or constructive eviction, destruction of or damage to the Enterprise, sale of the Enterprise, the taking by eminent domain of title to or temporary use of any component of the Enterprise, commercial frustration of purpose, any change in the tax or other laws of the United States of America or the State of California or any political subdivision of either thereof or any failure of the

Lender to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with this Loan Agreement.

SECTION 3.7. *Pledge and Application of Net Revenues.*

(a) Pledge. All of the Net Revenues are hereby irrevocably pledged to the punctual payment of the Loan Repayments, on a parity with the pledge and lien securing all Parity Obligations. The Net Revenues may not be used for any other purpose so long as any of the Loan Repayments and Parity Obligations remain unpaid; except that out of the Net Revenues there may be apportioned such sums, for such purposes, as are expressly permitted by this Section 3.7. Such pledge constitutes a first and exclusive lien on the Net Revenues and such other moneys for the payment of the Loan Repayments and Parity Obligations in accordance with the terms hereof and the terms of the instruments authorizing the issuance of Parity Obligations.

Pursuant to Section 5451 of the California Government Code, the pledge of the Net Revenues by the District for the repayment of the principal and interest components of the Loan Repayments constitutes a first lien and security interest (on a parity with the pledge and lien securing all Parity Obligations) which immediately attaches to the Net Revenues, and is effective and binding against the District and its successors and creditors and all others asserting rights therein irrespective of whether those parties have notice of the pledge, irrespective of whether such amounts are or may be deemed to be a fixture and without the need for physical delivery, recordation, filing or further act.

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

All Net Revenues will be held by the District in the Wastewater Enterprise Fund in trust for the benefit of the Lender and for the benefit of the owners of Parity Obligations. The District shall withdraw from the Wastewater Enterprise Fund and transfer to the Lender an amount of Net Revenues equal to the aggregate amount of the Loan Repayment when and as the same becomes due and payable. In addition, the District shall withdraw from the Wastewater Enterprise Fund such amounts of Net Revenues at such times as required to pay the principal of and interest on Parity Obligations and otherwise comply with the provisions of the instruments authorizing the issuance of all Parity Obligations.

(c) No Preference or Priority. Payment of the Loan Repayments and the principal of and interest on any Parity Obligations shall be made without preference or priority. If the amount of Net Revenues on deposit in the Wastewater Enterprise Fund is any time insufficient to enable the District to pay when due the Loan Repayments and the principal of and/or interest on Parity Obligations, such payments shall be made by the District on a pro rata basis.

(d) Other Uses Permitted. The District shall manage, conserve and apply the Net Revenues in such a manner that all deposits required to be made under the preceding paragraph will be made at the times and in the amounts so required. Subject to the foregoing sentence and Section 4.7, so long as no Event of Default has occurred and is continuing hereunder, the District may at any time and from time to time use and apply Net Revenues for (i) the acquisition and construction of improvements to the Enterprise; (ii) the prepayment of the Loan and Parity Obligations, or (iii) any other lawful purpose of the District.

ARTICLE IV

COVENANTS OF THE DISTRICT

SECTION 4.1. *Operation of Enterprise in Efficient and Economical Manner; Release and Indemnification Covenants.*

(a) The District shall operate the Enterprise in an efficient and economical manner and shall operate, maintain and preserve the Enterprise in good repair and working order.

(b) The District shall indemnify and hold the Lender and its officers, agents, successors and assigns harmless from and against all claims, losses and damages, including legal fees and expenses, arising out of the following:

- (i) the use, maintenance, condition or management of, or from any work or thing done on or about the Enterprise by the District,
- (ii) any breach or default on the part of the District in the performance of any of its obligations under this Loan Agreement, or
- (iii) any intentional misconduct or negligence of the District or of any of its agents, contractors, servants, employees, lessees or licensees with respect to the Enterprise.

No indemnification is made under this Section 4.1 or elsewhere in this Loan Agreement for willful misconduct, gross negligence, or breach of duty under this Loan Agreement by the Lender, its officers, agents, employees, successors or assigns. The provisions of this Section shall survive the termination of this Loan Agreement.

SECTION 4.2. *Sale or Eminent Domain of Enterprise.* Except as provided herein, the District covenants that the Enterprise will not be encumbered, sold, leased, pledged, any charge placed thereon, or otherwise disposed of, as a whole or substantially as a whole if such encumbrance, sale, lease, pledge, charge or other disposition would, in the Lender's reasonable opinion, materially impair the ability of the District to pay the Loan Repayments or the principal of or interest on Parity Obligations, or would materially adversely affect its ability to comply with the terms of this Loan Agreement or the documents authorizing the issuance of Parity Obligations. The District shall not enter into any agreement which impairs the operation of the Enterprise or any part of it necessary to secure adequate Net Revenues to pay the Loan Repayments and Parity Obligations, or which otherwise would impair the rights of the Lender, in the Lender's reasonable opinion, with respect to the Net Revenues. If any substantial part of the Enterprise is sold, the payment therefor must either (a) be used for the acquisition or construction of improvements and extensions or replacement facilities or (b) be applied to prepay the Loan and Parity Obligations, on any basis determined by the District, in accordance with this Loan Agreement and in the documents authorizing such Parity Obligations.

Any amounts received as awards as a result of the taking of all or any part of the Enterprise by the lawful exercise of eminent domain, if and to the extent that such right can be exercised against such property of the District, shall either (a) be used for the acquisition or construction of

improvements and extension of the Enterprise, or (b) be applied to prepay the Loan or Parity Obligations, on a pro rata basis, in the manner provided herein and in the documents authorizing such Parity Obligations. Notwithstanding the foregoing, the District shall proceed under (b) of the preceding sentence if all or substantially all of the Enterprise is taken by the lawful exercise of eminent domain and such taking in the reasonable judgment of the District and the Lender materially adversely affects the District's receipt of Net Revenues.

SECTION 4.3. *Insurance.* The District shall at all times maintain with responsible insurers all such insurance on the Enterprise as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to the Enterprise.

The District shall apply any amounts collected from insurance against accident to or destruction of any portion of the Enterprise to repair or rebuild such damaged or destroyed portion of the Enterprise.

The District shall also maintain, with responsible insurers, worker's compensation insurance and insurance against public liability and property damage to the extent reasonably necessary to protect the District and the Lender.

Any insurance coverage required under this Section may be maintained as part of or in conjunction with any other insurance coverage carried by the District, and may be maintained in whole or in part in the form of self-insurance by the District or in the form of the participation by the District in a joint powers agency or other program providing pooled insurance.

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

The District shall cause the books and accounts of the Enterprise to be audited annually by an independent certified public accountant or firm of certified public accountants. Not more than 9 months after the close of each Fiscal Year, the District shall furnish a copy of such report, free of significant deficiencies or material weakness, to the Lender.

Additionally, the District shall provide the Lender with a copy of the District's annual budget, as adopted or amended, within 30 days of adoption or amendment.

The District shall also provide the Lender such additional information reasonably requested by the Lender within five Business Days of receiving such request.

SECTION 4.5. *Rates and Charges.*

(a) Covenant Regarding Gross Revenues. The District shall fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Enterprise that are at least sufficient, after making allowances for contingencies and error in the estimates, to yield Gross Revenues sufficient to pay the following amounts in the following order of priority:

(i) All Operation and Maintenance Costs estimated by the District to become due and payable in each Loan Year.

(ii) All Loan Repayments and all payments of principal of and interest on Parity Obligations as they become due and payable during each Loan Year, without preference or priority, except to the extent the principal of and interest on such Parity Obligations are payable from the proceeds of such Parity Obligations.

(iii) All payments required to meet any other obligations of the District that are charges, liens, encumbrances upon, or which are otherwise payable from, the Gross Revenues or the Net Revenues during each Loan Year, except to the extent other sources of funds are reserved or encumbered therefor.

(b) Covenant Regarding Net Revenues. In addition, the District shall fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Enterprise during each Loan Year that are sufficient, after making allowances for contingencies and errors in estimates, to yield Net Revenues that are at least equal to 125% of average Annual Debt Service.

(c) Treatment of Future Subsidy Payments. For purposes of calculating the interest on any Parity Obligations, interest on such Parity Obligations shall be reduced by any related Subsidy Payments, and such Subsidy Payments will not be included as Gross Revenues for purposes of the coverage calculations set forth in this Section.

SECTION 4.6. *Superior and Subordinate Obligations.* The District may not issue or incur any bonds or other obligations having any priority in payment of principal or interest out of the Net Revenues over the Loan Repayments.

Nothing herein is intended or shall be construed to limit or affect the ability of the District to issue, enter into or incur obligations that are either unsecured or that are secured by an interest in the Net Revenues that is junior and subordinate to the pledge of and lien upon the Net Revenues established hereunder.

SECTION 4.7. *Issuance of Parity Obligations.*

(a) Conditions for Issuing. Except for obligations incurred to prepay or discharge the Loan Repayments or Parity Obligations, the District may not issue or incur any additional Parity Obligations during the Term hereof unless all of the following conditions are satisfied:

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

(ii) The Net Revenues, calculated in accordance with generally accepted accounting principles, as shown by the books of the District for the most recent completed Fiscal Year for which audited financial statements of the District are available, or for any more recent consecutive 12 month period selected by the District, in either case verified by a certificate or an opinion of an independent certified public accountant, less connection fees, developer impact fees and other one-time revenues, plus (at the option of the District) any Additional Revenues, at least equal 125% of average Annual Debt Service (including the Parity Obligations then proposed to be issued).

(b) Treatment of Subsidy Payments. For purposes of calculating the interest on any outstanding Parity Obligations or the Parity Obligations proposed to be issued, interest on such Parity Obligations shall be reduced by any related Subsidy Payments, and such Subsidy

Payments will not be included as Gross Revenues for purposes of the coverage calculations set forth in this Section.

(c) Parity Obligations Issued Solely for Refunding Purposes. If the Parity Obligations are being issued solely to refund outstanding Parity Obligations, and the resulting Annual Debt Service for each Loan Year is less than the Annual Debt Service for each Loan Year prior to the issuance of the refunding Parity Obligations, the District need not comply with the provisions of paragraph (a) above.

(d) Debt Service Reserve. The District may but is not required to establish a debt service reserve (whether through the deposit of cash or purchase of a surety) with respect to any Parity Obligations. If established, any such debt service reserve shall secure only the Parity Obligations to which it relates.

SECTION 4.8. *Assignment by the Lender.* The Lender has the right to make assignments of its interests herein; *provided, however,* that the assignee must (a) be one of the following (i) a “bank” as such term is used in Section 3(a)(2) of the Securities Act of 1933, as amended, or (ii) an affiliate of the Lender, and (b) deliver to the District a purchaser letter of representations satisfactory to the District. No assignment will be effective as against the District unless and until the provisions of this Section 4.8 shall have been satisfied.

The District shall pay all Loan Repayments hereunder under the written direction of the Lender or its assignee named in the most recent assignment or notice of assignment filed with the District. During the Term of this Loan Agreement, the District shall keep a complete and accurate record of all such notices of assignment.

SECTION 4.9. *Assignment by the District.* Neither the Loan nor this Loan Agreement may be assigned by the District, other than to a public agency which shall succeed to the interests of the District in and to the Enterprise and which (by operation of law, by contract or otherwise) becomes legally bound to all of the terms and provisions hereof.

SECTION 4.10. *Amendment of this Loan Agreement.* This Loan Agreement may be amended by a written instrument which has been duly authorized, executed and delivered by the District and the Lender.

SECTION 4.11. *Tax Covenants*

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

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

(c) Federal Guarantee Prohibition. The District may not take any action or permit or suffer any action to be taken if the result of the same would be to cause the Loan Repayments to be “federally guaranteed” within the meaning of Section 149(b) of the Tax Code.

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

(e) Small Issuer Exemption from Bank Nondeductibility Restriction. The District hereby designates the Loan for purposes of paragraph (3) of Section 265(b) of the Tax Code and represents that not more than \$10,000,000 aggregate principal amount of obligations the interest on which is excludable (under Section 103(a) of the Tax Code) from gross income for federal income tax purposes (excluding (i) private activity bonds, as defined in Section 141 of the Tax Code, except qualified 501(c)(3) bonds as defined in Section 145 of the Tax Code and (ii) current refunding obligations to the extent the amount of the refunding obligation does not exceed the outstanding amount of the refunded obligation), including the Loan, has been or will be issued by the District, including all subordinate entities of the District, during the calendar year 2020.

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

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

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

ARTICLE V

EVENTS OF DEFAULT AND REMEDIES

SECTION 5.1. *Events of Default Defined.* The following are Events of Default under this Loan Agreement:

- (a) Failure by the District to pay any Loan Repayment or other payment required hereunder on the date on which such Loan Repayment or other payment becomes due, and the continuation of such failure for a period of 3 business days after written notice specifying such failure and requesting that it be remedied has been given to the District by the Lender.
- (b) Failure by the District to observe and perform any covenant, condition or agreement on its part to be observed or performed hereunder, other than as referred to in the preceding clause (a) of this Section, for a period of 30 days after written notice specifying such failure and requesting that it be remedied has been given to the District by the Lender; *provided, however*, if in the reasonable opinion of the District the failure stated in the notice can be corrected, but not within such 30 day period, the Lender may not unreasonably withhold its consent to an extension of such time if corrective action is instituted by the District within such 30 day period and diligently pursued until the default is corrected.
- (c) The filing by the District of a voluntary petition in bankruptcy, or failure by the District promptly to lift any execution, garnishment or attachment, or adjudication of the District as bankrupt, or assignment by the District for the benefit of creditors, or the entry by the District into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of a petition applicable to the District in any proceedings instituted under the provisions of the Federal Bankruptcy Code, as amended, or under any similar acts which may hereafter be enacted.
- (d) The occurrence of any event of default under and as defined in any of the Parity Obligations.

SECTION 5.2. *Remedies on Default.* Upon the occurrence and during the continuation of an Event of Default, the Lender may, at its option and without any further demand or notice:

- (a) declare all principal components of the unpaid Loan Repayments, together with accrued interest thereon, to be immediately due and payable, whereupon the same will immediately become due and payable; and
- (b) take whatever action at law or in equity may appear necessary or desirable to collect the Loan Repayments then due or thereafter to become due during the Term of this Loan Agreement, or enforce performance and observance of any obligation, agreement or covenant of the District under this Loan Agreement.

The provisions of the preceding clause (a) are subject to the condition that if, at any time after the principal components of the unpaid Loan Repayments have been so declared due and payable under the preceding clause (a), and before any judgment or decree for the payment of the moneys due have been obtained or entered, the District deposits with the Lender a sum sufficient to pay all principal components of the Loan Repayments coming due prior to such declaration and all matured interest components (if any) of the Loan Repayments, with interest on such overdue principal and interest components calculated at the rate set forth in the applicable provisions of Section 3.5, and a sum sufficient to pay all reasonable costs and expenses incurred by the Lender in the exercise of its rights and remedies hereunder, and any and all other defaults known to the Lender (other than in the payment of the principal and interest components of the Loan Repayments due and payable solely by reason of such declaration) have been made good, then, and in every such case, the Lender may, by written notice to the District, rescind and annul such declaration and its consequences. However, no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

SECTION 5.3. *No Remedy Exclusive.* No remedy herein conferred upon or reserved to the Lender is exclusive, and every such remedy is cumulative and in addition to every other remedy given under this Loan Agreement or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any Event of Default impairs any such right or power or operates as a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Lender to exercise any remedy reserved to it in this Article V it is not necessary to give any notice, other than such notice as may be required in this Article V or by law.

SECTION 5.4. *Agreement to Pay Attorneys' Fees and Expenses.* If either party to this Loan Agreement defaults under any of the provisions hereof and the nondefaulting party employs attorneys (including in-house counsel) or incurs other expenses for the collection of moneys or the enforcement or performance or observance of any obligation or agreement on the part of the defaulting party herein contained, the defaulting party will on demand therefor pay to the nondefaulting party the reasonable fees of such attorneys (including those of in-house counsel) and such other expenses so incurred by the nondefaulting party.

SECTION 5.5. *No Additional Waiver Implied by One Waiver.* If any agreement contained in this Loan Agreement is breached by either party and thereafter waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder.

ARTICLE VI

PREPAYMENT OF LOAN

SECTION 6.1. *Optional Prepayment.* The District may, at its option, prepay the unpaid principal amount of the Loan on any date on or after August 1, 2025, in whole or in part, upon not less than 30 days' prior written notice to the Lender, at a prepayment price equal to 100% of the principal amount of the Loan to be prepaid, plus accrued interest on the Loan amount being prepaid to the prepayment date, without premium. In the event of a partial prepayment, (i) the District shall specify the principal components of the Loan to be prepaid and (ii) a revised Loan

Repayments schedule in the form attached as Appendix A shall be prepared by the Lender and provided to the District.

SECTION 6.2. *Mandatory Prepayment From Net Proceeds of Insurance or Eminent Domain.* The District shall prepay the unpaid principal balance of the Loan in whole on any date, or in part on any Loan Repayment Date, from and to the extent the District determines to apply any proceeds of insurance award or condemnation award with respect to the Enterprise for such purpose under Sections 4.2 or 4.3 at a prepayment price equal to the principal amount to be prepaid plus a prepayment premium equal to the amount which would apply to such prepayment if the District prepaid its obligations under Section 6.1 on such date. The District and the Lender hereby agree that such proceeds, to the extent remaining after payment of any delinquent Loan Repayments, shall be credited towards the District's obligations under this Section 6.2.

ARTICLE VII

MISCELLANEOUS

SECTION 7.1. *Notices.* Any notice, request, complaint, demand or other communication under this Loan Agreement shall be given by first class mail, personal delivery, or email transmission or other form of electronic communication, to the party entitled thereto at its address set forth below.

Notice shall be effective either (a) 48 hours after deposit in the United States of America first class mail, postage prepaid, (b) in the case of personal delivery to any person, upon actual receipt, or (c) upon transmission by email transmission or other form of electronic communication. The District and the Lender may, by written notice to the other parties, from time to time modify the address or number to which communications are to be given hereunder.

If to the District:	Carpinteria Sanitary District 5300 Sixth Street Carpinteria, CA 93013 Attention: General Manager Email: info@carpsan.com
If to the Lender:	JPMorgan Chase Bank, N.A. 300 S. Grand Avenue, Floor 4 Los Angeles, CA 90071 Attention: Jay Crews Email: Jay.Crews@JPMorgan.com

Section 7.2. *Jury and Judicial Reference.* To the fullest extent permitted by law, the District will agree to waive any 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 Loan Agreement or any documents relating to this Loan Agreement, or the enforcement of any remedy under any law, statute, or regulation. To the extent such waiver is not enforceable, the District consents to the adjudication of any and all such matters pursuant to Judicial Reference as provided in Section 638 of the California Code of Civil Procedure, and the judicial referee shall be empowered to hear and determine any and all issues in such Judicial Reference whether fact or law. The District

represents that it does not possess and will not invoke a claim of sovereign immunity for disputes arising out of contractual claims relating to this Loan Agreement or the related documents.

SECTION 7.3. *Binding Effect.* This Loan Agreement inures to the benefit of and is binding upon the Lender and the District and their respective successors and assigns.

SECTION 7.4. *Severability.* If any provision of this Loan Agreement is held invalid or unenforceable by any court of competent jurisdiction, such holding will not invalidate or render unenforceable any other provision hereof.

SECTION 7.5. *Net-net-net Contract.* This Loan Agreement is a “net-net-net” contract, and the District hereby agrees that the Loan Repayments are an absolute net return to the Lender, free and clear of any expenses, charges or set-offs whatsoever.

SECTION 7.6. *Further Assurances and Corrective Instruments.* The Lender and the District shall, from time to time, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, such supplements hereto and such further instruments as may reasonably be required for carrying out the expressed intention of this Loan Agreement.

SECTION 7.7. *Execution in Counterparts.* This Loan Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

SECTION 7.8. *Applicable Law.* This Loan Agreement shall be governed by and construed in accordance with the laws of the State of California.

SECTION 7.9. *Captions.* The captions or headings in this Loan Agreement are for convenience only and in no way define, limit or describe the scope or intent of any provisions or Section of this Loan Agreement.

SECTION 7.10. *Website Disclosure.* This Agreement and related documentation may be posted or sent by the District to a national public market repository (such as the EMMA website); provided, that certain information be redacted by the District in consultation with the Lender. Items that should be redacted include signatures/names, account numbers, and wire transfer and payment instructions.

[Signature Page Follows]

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

JPMORGAN CHASE BANK, N.A.
as Lender

By: _____
Joseph J. Crews
Vice President

CARPINTERIA SANITARY DISTRICT,
as Borrower

By: _____
Deborah Murphy, President
Board of Directors

ATTEST:

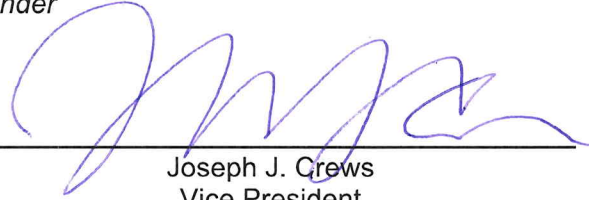
Craig Murray,
General Manager

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JPMORGAN CHASE BANK, N.A.

as Lender

By: _____



Joseph J. Crews
Vice President

CARPINTERIA SANITARY DISTRICT,

as Borrower

By: _____

Deborah Murphy, President
Board of Directors

ATTEST:

Craig Murray,
General Manager

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as Lender

By: _____
Joseph J. Crews
Vice President

CARPINTERIA SANITARY DISTRICT,
as Borrower

By:  _____
Deborah Murphy, President
Board of Directors

ATTEST:



Craig Murray,
General Manager

APPENDIX A

Schedule of Loan Repayments

<i>Period Ending</i>	<i>Principal</i>	<i>Coupon</i>	<i>Interest</i>	<i>Debt Service</i>	<i>Annual Debt Service</i>
8/1/21	227,000	1.770%	43,856.67	270,856.67	
2/1/22			33,391.05	33,391.05	
6/30/22					304,247.72
8/1/22	240,000	1.770%	33,391.05	273,391.05	
2/1/23			31,267.05	31,267.05	
6/30/23					304,658.10
8/1/23	244,000	1.770%	31,267.05	275,267.05	
2/1/24			29,107.65	29,107.65	
6/30/24					304,374.70
8/1/24	248,000	1.770%	29,107.65	277,107.65	
2/1/25			26,912.85	26,912.85	
6/30/25					304,020.50
8/1/25	253,000	1.770%	26,912.85	279,912.85	
2/1/26			24,673.80	24,673.80	
6/30/26					304,586.65
8/1/26	257,000	1.770%	24,673.80	281,673.80	
2/1/27			22,399.35	22,399.35	
6/30/27					304,073.15
8/1/27	262,000	1.770%	22,399.35	284,399.35	
2/1/28			20,080.65	20,080.65	
6/30/28					304,480.00
8/1/28	266,000	1.770%	20,080.65	286,080.65	
2/1/29			17,726.55	17,726.55	
6/30/29					303,807.20
8/1/29	271,000	1.770%	17,726.55	288,726.55	
2/1/30			15,328.20	15,328.20	
6/30/30					304,054.75
8/1/30	276,000	1.770%	15,328.20	291,328.20	
2/1/31			12,885.60	12,885.60	
6/30/31					304,213.80
8/1/31	281,000	1.770%	12,885.60	293,885.60	
2/1/32			10,398.75	10,398.75	
6/30/32					304,284.35

8/1/32	286,000	1.770%	10,398.75	296,398.75	
2/1/33			7,867.65	7,867.65	
6/30/33					304,266.40
8/1/33	291,000	1.770%	7,867.65	298,867.65	
2/1/34			5,292.30	5,292.30	
6/30/34					304,159.95
8/1/34	296,000	1.770%	5,292.30	301,292.30	
2/1/35			2,672.70	2,672.70	
6/30/35					303,965.00
8/1/35	302,000	1.770%	2,672.70	304,672.70	
6/30/36					304,672.70
	<u>\$4,000,000</u>		<u>\$563,864.97</u>	<u>\$4,563,864.97</u>	<u>\$4,563,864.97</u>