
LEASE AGREEMENT
(Water Enterprise)

Dated as of November 1, 2001

by and between

SOUTH GATE UTILITY AUTHORITY,
as Lessee

and the

CITY OF SOUTH GATE, CALIFORNIA,
as Lessor

TABLE OF CONTENTS

Page

**ARTICLE 1
DEFINITIONS**

Section 1.1 Definitions..... 1

**ARTICLE 2
COVENANTS AND REPRESENTATIONS**

Section 2.1 Covenants and Representations of the City 3
Section 2.2 Covenants and Representations of the Authority..... 4

**ARTICLE 3
LEASE AND OPERATION OF WATER ENTERPRISE**

Section 3.1 Lease of the Water Enterprise..... 5
Section 3.2 Appointment of City as Agent of Authority 5

**ARTICLE 4
LEASE PAYMENTS**

Section 4.1 Term..... 5
Section 4.2 Lease Payments..... 5
Section 4.3 Pledge and Application of Surplus Revenues..... 6
Section 4.4 Special Obligation of the Authority; Obligations Absolute..... 7
Section 4.5 Rates, Fees and Charges 8

**ARTICLE 5
MAINTENANCE; TAXES, INSURANCE; AND OTHER MATTERS**

Section 5.1 Maintenance, Utilities, Taxes and Assessments 9
Section 5.2 Operation of Water Enterprise 9
Section 5.3 Insurance 9
Section 5.4 Eminent Domain 10
Section 5.5 Records and Accounts..... 10
Section 5.6 Inter-Enterprise Loan 10

**ARTICLE 6
DISCLAIMER OF WARRANTIES; ACCESS**

Section 6.1 Disclaimer of Warranties 10
Section 6.2 Release and Indemnification Covenants 11
Section 6.3 Non-Liability of City for Water Enterprise Obligations..... 11

**ARTICLE 7
ASSIGNMENT, SALE AND AMENDMENT**

Section 7.1 Assignment by the Authority 11
Section 7.2 Sale of Water Enterprise 11
Section 7.3 Amendment of Agreement..... 11

TABLE OF CONTENTS
(continued)

Page

ARTICLE 8
EVENTS OF DEFAULT

Section 8.1	Events of Default Defined	11
Section 8.2	Remedies on Default.....	12
Section 8.3	No Remedy Exclusive.....	12
Section 8.4	Agreement to Pay Attorneys' Fees and Expenses	13
Section 8.5	No Additional Waiver Implied by One Waiver.....	13

ARTICLE 9
PREPAYMENT OF LEASE PAYMENTS

Section 9.1	Security Deposit.....	13
Section 9.2	Optional Prepayment	13
Section 9.3	Mandatory Prepayment From Proceeds of Insurance, Sale or Eminent Domain.....	13

ARTICLE 10
MISCELLANEOUS

Section 10.1	Further Assurances.....	14
Section 10.2	Amendment.....	14
Section 10.3	Notices	14
Section 10.4	Governing Law	14
Section 10.5	Binding Effect.....	14
Section 10.6	Severability of Invalid Provisions.....	14
Section 10.7	Article and Section Headings and References	15
Section 10.8	Execution of Counterparts	15
Section 10.9	Waiver of Personal Liability.....	15
Section 10.10	Benefit of Agreement.....	15

LEASE AGREEMENT

THIS LEASE AGREEMENT, dated as of November 1, 2001, is by and between the SOUTH GATE UTILITY AUTHORITY, a joint powers authority duly organized and existing under the laws of the State of California (the "Authority"), and the CITY OF SOUTH GATE, a municipal corporation duly organized and existing under the laws of the State of California (the "City"),

WITNESSETH:

WHEREAS, the City owns, operates and controls the City's water system (the "Water Enterprise") and has further established certain funds and accounts which relate to the Water Enterprise; and

WHEREAS, the Authority wishes to lease the Water Enterprise from the City, and the City wishes to lease the Water Enterprise to the Authority, and the Authority is authorized to lease the Water Enterprise and to operate the Water Enterprise; and

WHEREAS, the Authority and the City have duly authorized the execution and delivery of this Lease Agreement;

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

ARTICLE 1

DEFINITIONS

Section 1.1 Definitions. Unless the context clearly otherwise requires or unless otherwise defined herein, the capitalized terms in this Agreement shall have the respective meanings specified in the 1996 Trust Agreement, the 1996 Installment Sale Agreement or the Indenture. In addition, the following terms defined in this Section 1.1 shall, for all purposes of this Lease Agreement, have the respective meanings herein specified.

"Agreement" means this Lease Agreement, together with any duly authorized and executed amendments hereto.

"Allocated Costs" means an amount payable to the City based on an allocation of City overhead to the Water Enterprise.

"Bonds" means the Authority's \$30,965,451.15 Subordinate Revenue Bonds, 2001 Series (Water and Sewer System Projects), issued on the Closing Date.

"Closing Date" means November 20, 2001.

“Debt Service” means the “Debt Service” as defined in the 1996 Installment Sale Agreement.

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

“Discount Rate” means 4.5%.

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

“Gross Revenues” means, for any Fiscal Year, the sum of all gross charges received for, and all other gross income and receipts derived by the Authority from the lease and operation of the Water Enterprise or otherwise arising from the Water Enterprise, including but not limited to investment earnings thereon.

“Indenture” means the Indenture of Trust, dated as of November 1, 2001, by and between the Authority and U. S. Bank Trust National Association, as Trustee, authorizing the issuance of the Bonds.

“Lease” means the lease of the Water Enterprise pursuant to this Agreement.

“Lease Payments” means the amounts payable by the Authority pursuant to Section 4.2, including any prepayments thereof pursuant to Article 9.

“Net Revenues” means, for any Fiscal Year, an amount equal to all of the Gross Revenues received with respect to such Fiscal Year, minus the amount required to pay all Direct Costs becoming payable with respect to such Fiscal Year, minus the amount required to pay debt service on any obligations incurred by the Authority with respect to the Water Enterprise becoming payable with respect to such Fiscal Year.

“1996 Installment Sale Agreement” means the 1996 Installment Sale Agreement, dated as of March 1, 1996, by and between the City of South Gate and the South Gate Public Financing Authority.

“1996 Trust Agreement” means the Trust Agreement, dated as of March 1, 1996, by and between the South Gate Public Financing Authority and U.S. Bank Trust National Association, as successor trustee thereunder.

“Payment Date” means the fifteenth day of each month, commencing December 15, 2001, or such other dates determined by the City and the Authority.

“Surplus Revenues” means, for any Fiscal Year, an amount equal to all of the Gross Revenues received with respect to such Fiscal Year, minus the amount required to pay all Direct Costs becoming payable with respect to such Fiscal Year, minus the amount required to pay Debt Service on the 1996 Series A Bonds for such Fiscal Year, and minus the amount required to pay debt service on any obligations incurred by the Authority with respect to the Water Enterprise becoming payable with respect to such Fiscal Year. Upon the defeasance and discharge of the 1996 Trust Agreement, Surplus Revenues shall have the same meaning as Net Revenues.

“Term of this Lease Agreement” means the time during which this Lease Agreement is in effect, as provided in Section 4.1.

“Termination Date” means the date on which the City shall no longer act as Agent of the Authority with respect to the Water Enterprise pursuant to Section 3.2 of this Lease Agreement or the City has terminated the Water Enterprise Management Agreement.

“Total Rental” shall mean the total rental having an aggregate present value, when computed as of the Closing Date and at the Discount Rate, of \$105,334,004.44, which amount represents the replacement value of the Water Enterprise as determined by a valuation consultant, plus net current assets of the Water Enterprise as of June 30, 2001 transferred to the Authority.

“Water Enterprise” means the City’s water system, consisting of the property and assets described in Exhibit A hereto.

“Water Enterprise Management Agreement” means the agreement of that name, dated as of November 1, 2001, by and between the Authority and the City.

ARTICLE 2

COVENANTS AND REPRESENTATIONS

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

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

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

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

(d) The execution and delivery of this Agreement, the consummation of the transactions herein contemplated and the fulfillment of or compliance with the terms and conditions hereof, will not conflict with or constitute a violation or breach of or default (with due notice or the passage of time or both) under any applicable law or administrative rule or regulation, or any applicable court or administrative decree or order, or any indenture mortgage, deed of trust, lease, contract or other agreement or instrument to which the City is a party or by which it or its Water Enterprise 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 City, 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, property or operations of the Water Enterprise.

(e) No consent or approval of any trustee or holder of any indebtedness of the City or of the voters of the City, 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 Agreement or the consummation of any transaction herein and therein contemplated, except as have been obtained or made and as are in full force and effect.

(f) There is no action, suit, proceeding, inquiry or investigation before or by any court or federal, state, municipal or other governmental authority pending or threatened against or affecting the City or the Water Enterprise which, if determined adversely to the City 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 or operation of the Water Enterprise, and the City 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 conditions or operations of the Water Enterprise.

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

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

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

(c) The Authority shall be bound by the tax covenants set forth in Section 5.03 of the 1996 Trust Agreement so long as the 1996 Trust Agreement remains operative, which such covenants by this reference shall be incorporated herein.

ARTICLE 3

LEASE AND OPERATION OF WATER ENTERPRISE

Section 3.1 Lease of the Water Enterprise. The Authority agrees to lease the Water Enterprise from the City, and the City agrees to lease, and hereby does lease, such Water Enterprise to the Authority, for the Total Rental, with an up-front lease payment to be paid from Bond proceeds on the Closing Date of \$21,985,000.00.

Section 3.2 Appointment of City as Agent of Authority. The Authority hereby appoints the City as its agent to carry out all aspects of the operation and maintenance of the Water Enterprise pursuant to and in accordance with the provisions hereof and the Water Enterprise Management Agreement. The City hereby accepts such appointment and assumes all rights, liabilities, duties and responsibilities of the Authority regarding the operation and maintenance of the Water Enterprise pursuant to the Water Enterprise Management Agreement. The City, as agent of the Authority hereunder, shall enter into, administer and enforce all contracts or other agreements relating to the operation and maintenance of the Water Enterprise. All contracts relating to the acquisition, operation and maintenance of the Water Enterprise shall be subject to all applicable provisions of law relating to like property operated by joint powers authorities and by municipal corporations. The Authority may revoke the appointment of the City as its agent by delivering written notice at least one hundred eighty (180) days prior to the Termination Date.

ARTICLE 4

LEASE PAYMENTS

Section 4.1 Term. The Term of this Agreement shall commence on the Closing Date, and shall end on December 1, 2056. The provisions of this Section 4.1 are subject in all respects to any other provisions of this Agreement relating to the termination hereof.

Section 4.2 Lease Payments.

(a) Obligation to Pay. The Authority agrees to pay to the City, its successors and assigns, but solely from the Surplus Revenues and other funds pledged hereunder, Lease Payments totaling the Total Rental. Lease Payments shall be paid by the Authority to the City, on each Payment Date in the amounts determined by the City by resolution upon adoption of its annual budget, as it may be amended from time to time.

(b) Effect of Prepayment. In the event that the Authority prepays all remaining Lease Payments in full pursuant to Article 9, only the Authority's obligations under this Agreement to pay Lease Payments therefor under this Section 4.2 shall cease and terminate.

(c) Loan to City. An up-front Lease Payment in the amount of \$21,985,000.00 made on the Closing Date shall be credited against the Total Rental due hereunder to the City. The City shall loan such amount to the Authority to be used for capital improvements to the Sewer Enterprise. This loan shall be repaid to the City by the Authority at terms to be determined by agreement of the City and the Authority.

Section 4.3 Pledge and Application of Surplus Revenues.

(a) Pledge of Surplus Revenues. All of the Surplus Revenues are hereby irrevocably pledged, charged and assigned by the Authority to the punctual payment of the Lease Payments and, except as otherwise provided in the 1996 Trust Agreement or herein, the Surplus Revenues and such other funds shall not be used for any other purpose (except capital improvements, including debt service on bonded indebtedness or other obligations incurred by the Authority in connection with the Water Enterprise, and other lawful purposes related to the Water Enterprise) so long as any of the Lease Payments remain unpaid. Such pledge, charge and assignment shall constitute a first lien on the Surplus Revenues and such other moneys for the payment of the Lease Payments in accordance with the terms hereof, subject to the prior lien of the 1996 Series A Bonds.

Upon the defeasance and discharge of the 1996 Trust Agreement, all of the Net Revenues are hereby irrevocably pledged, charged and assigned by the Authority to the punctual payment of the Lease Payments and the Net Revenues and such other funds shall not be used for any other purpose (except capital improvements, including debt service on bonded indebtedness or other obligations incurred by the Authority in connection with the Water Enterprise, and other lawful purposes related to the Water Enterprise) so long as any of the Lease Payments remain unpaid. Such pledge, charge and assignment shall constitute a first lien on the Net Revenues and such other moneys for the payment of the Lease Payments in accordance with the terms hereof.

(b) Deposits Into Water Fund; Transfers to Make Lease Payments. The Authority shall cause the City, and the City hereby agrees and covenants, to continue to deposit all of the Gross Revenues immediately upon receipt in the Water Fund as provided in the 1996 Installment Sale Agreement. The Water Fund shall continue in existence notwithstanding the satisfaction of all obligations under the 1996 Trust Agreement. Amounts deposited in the Water Fund shall be disbursed and used in accordance with the 1996 Installment Sale Agreement; provided, however, that so long as no Event of Default has occurred and is continuing under the 1996 Installment Sale Agreement, the City shall transfer to the Authority on each Payment Date moneys remaining in the Water Fund and the Authority may use such funds for any purpose permitted by law, including but not limited to Lease Payments under this Agreement and payment of in lieu franchise fees.

Upon the defeasance and discharge of the 1996 Trust Agreement, the Water Fund shall be held by the City on behalf of the Authority. The Authority shall cause the City, and the City hereby agrees and covenants, to deposit all of the Gross Revenues immediately upon receipt in the Water Fund. On or after the first day of each month, amounts deposited in the Water Fund shall be disbursed in the following order of priority:

- (i) payment of budgeted Direct Costs for the preceding month;
- (ii) payment of the proportionate amount of debt service coming due on any bonds, notes or obligations of the Authority relating to the Water Enterprise;
- (iii) payment of the Proportionate Share of the amount, if any, required to be deposited in the Reserve Account pursuant to the Indenture; and

- (iv) payment of Allocated Costs for the preceding month.

Amounts remaining in the Water Fund immediately after making the transfers required to be made pursuant to this Section shall be used by the Authority for any lawful purpose including making Lease Payments. Amounts remaining in the Water Fund and not required to make Lease Payments shall be released to the Authority to be used by the Authority for any lawful purpose, including payment of in lieu franchise fees and contributions to the City's General Fund for street improvements related to the Water Enterprise.

(c) Budget and Appropriation of Lease Payments. During the term of this Agreement, the Authority, with the assistance of the City, shall adopt and make all necessary budgets and appropriations of the Lease Payments from the Surplus Revenues. In the event any Lease Payment requires the adoption by the Authority of any supplemental budget or appropriation, the Authority shall promptly adopt the same. The covenants on the part of the Authority contained in this subsection (c) shall be deemed to be and shall be construed to be duties imposed by law and it shall be the duty of each and every public official of the Authority to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the Authority to carry out and perform the covenants and agreements in this subsection (c).

Section 4.4 Special Obligation of the Authority; Obligations Absolute. The Authority's obligation to pay the Lease Payments hereunder shall be a special obligation of the Authority limited solely to the Surplus Revenues. Under no circumstances shall the Authority be required to advance moneys derived from any source of income other than the Surplus Revenues and other sources specifically identified herein for the payment of the Lease Payments, nor shall any other funds or property of the Authority be liable for the payment of the Lease Payments and any other amounts coming due and payable hereunder.

The obligations of the Authority to make the Lease Payments from the Surplus Revenues and to perform and observe the other agreements contained herein shall be absolute and unconditional and shall not be subject to any defense or any right of setoff, counterclaim or recoupment arising out of any breach of the City of any obligation to the Authority or otherwise with respect to the Water Enterprise, whether hereunder or otherwise, or out of indebtedness or liability at any time owing to the Authority by the City. Until such time as all of the Lease Payments and all other amounts coming due and payable hereunder shall have been fully paid or prepaid, the Authority (a) will not suspend or discontinue payment of any Lease Payments or such other amounts, and (b) will perform and observe all other agreements contained in this Agreement.

In the event the City shall fail to perform any of its agreements contained herein, the Authority may institute such action against the City as the Authority may deem necessary to compel performance so long as such action does not abrogate the obligations of the Authority contained in the preceding paragraph. The Authority may, however, at the Authority's own cost and expense and in the Authority's own name or in the name of the Authority prosecute or defend any action or proceeding or take any other action involving third persons which the Authority deems reasonably necessary in order to secure or protect the Authority's rights hereunder, and in such event the Authority hereby agrees to cooperate fully with the City and to

take such action necessary to effect the substitution of the City for the Authority in such action or proceeding, if the Authority shall so request.

Section 4.5 Rates, Fees and Charges. The Authority and the City hereby make the covenants set forth in the 1996 Installment Sale Agreement regarding rates, fees and charges as if fully set forth herein, for the benefit of the City hereunder. Upon the defeasance and discharge of the 1996 Trust Agreement, the Authority and the City shall fix, prescribe, revise and collect rates, fees and charges for the Water Enterprise as a whole for the services and improvements furnished by the Water Enterprise during each Fiscal Year that are at least sufficient, after making allowances for contingencies and error in the estimates, to yield Gross Revenues that are sufficient to pay the following amounts in the following order of priority:

(a) all Direct Costs estimated by the Authority to become due and payable in such Fiscal Year;

(b) the debt service payments on any bonds, notes or obligations of the Authority relating to the Water Enterprise as they become due and payable during such Fiscal Year, without preference or priority, except to the extent such debt service payments are payable from the proceeds of the bonds, notes or obligations or from any other source of legally available funds of the Authority;

(c) the amount, if any, required to be deposited in the Reserve Account pursuant to the Indenture;

(d) the amount required to pay Allocated Costs;

(e) the amount required to pay Lease Payments; and

(f) all other payments required to meet any other obligations of the Authority that are charges, liens, encumbrances upon, or which are otherwise payable, from Gross Revenues during such Fiscal Year.

Water rates and charges shall be reviewed annually as part of the Authority's budgetary process.

ARTICLE 5

MAINTENANCE; TAXES, INSURANCE; AND OTHER MATTERS

Section 5.1 Maintenance, Utilities, Taxes and Assessments. Throughout the term of this Agreement, all improvement, repair and maintenance of the Water Enterprise shall be the responsibility of the Authority, and the Authority shall pay for or otherwise arrange for the payment of all utility services supplied to the Water Enterprise, which may include, without limitation, janitor service, security, power, gas, telephone, light, heating, water and all other utility services, and shall pay for or otherwise arrange for the payment of the cost of the repair and replacement of the Water Enterprise resulting from ordinary wear and tear.

The Authority shall also pay or cause to be paid all taxes and assessments of any type or nature, if any, charged to the Authority affecting the Water Enterprise or its interest or estate therein; provided, however, that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the Authority shall be obligated to pay only such installments as are required to be paid during the term of this Agreement as and when the same become due.

The Authority may, at the Authority's expense and in its name, in good faith contest any such taxes, assessments, utility and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless the City shall notify the Authority that, in its opinion, by nonpayment of any such items, the interest of the City hereunder or under the Indenture will be materially adversely affected, in which event the Authority shall promptly pay such taxes, assessments or charges or provide the City with full security against any loss which may result from nonpayment, in form satisfactory to the City.

Section 5.2 Operation of Water Enterprise. The Authority covenants and agrees to operate the Water Enterprise in an efficient and economical manner and to operate, maintain and preserve the Water Enterprise in at least as good repair and working order as on the effective date of this Agreement. The Authority covenants that, in order to fully preserve and protect the priority and security of the Debt Service and the Lease Payments, the Authority shall pay from the Gross Revenues and discharge all lawful claims for labor, materials and supplies furnished for or in connection with the Water Enterprise which, if unpaid, may become a lien or charge upon the Gross Revenues or the Surplus Revenues prior or superior to the lien granted hereunder, or which may otherwise impair the ability of the Authority to pay the Lease Payments in accordance herewith. The Authority shall be responsible for any fines, liabilities, or other debts coming due as a result of the operation of the Water Enterprise.

Section 5.3 Insurance. The Authority shall maintain or cause to be maintained, throughout the term of this Agreement, but only if and to the extent available at reasonable cost from reputable insurers, such insurance required to be maintained under Section 5.10 of the 1996 Installment Sale Agreement and shall cause insurance proceeds to be applied as provided therein.

Section 5.4 Eminent Domain. The Authority shall cause amounts received as awards as a result of the taking of all or any part of the Water Enterprise by the lawful exercise of

eminent domain to be applied in accordance with Section 5.16 of the 1996 Installment Sale Agreement. Upon the defeasance and discharge of the 1996 Trust Agreement, the Authority shall cause such amounts to be applied towards the prepayment of the Lease Payments.

Section 5.5 Records and Accounts. The Authority shall keep proper books of record and accounts of the Water Enterprise, separate from all other records and accounts, in which complete and correct entries shall be made of all transactions relating to the Water Enterprise. Said books shall, upon prior request, be subject to the reasonable inspection by the City or its representatives authorized in writing. The Authority shall cause the books and accounts of the Water Enterprise to be audited annually by an Independent Accountant, not more than two hundred ten (210) days after the close of each Fiscal Year, and shall make a copy of such report available for inspection by the City at the office of the Authority.

Section 5.6 Inter-Enterprise Loan. In the event Surplus Revenues and other moneys pledged for the payment of the Lease Payments are insufficient to pay the Lease Payment coming due on any Payment Date, the Authority agrees to make an inter-enterprise loan to the Water Fund of all amounts in such similar fund held by the City on behalf of the Authority with respect to the Sewer Enterprise available therefore, to the extent required to make up any deficiency in the amounts available for payment of Lease Payments coming due on such Payment Date. Such inter-enterprise loan shall be repaid to the fund from which such moneys were advanced, out of any moneys of the Authority available therefor, monthly with interest at the average investment earnings rate of the City. The inter-enterprise loan shall be subordinate to the Lease Payments, and to any other debt of the Authority.

ARTICLE 6

DISCLAIMER OF WARRANTIES; ACCESS

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

Section 6.2 Release and Indemnification Covenants. The Authority shall and hereby agrees to indemnify and save the City, the Trustee and their respective officers, agents, successors and assigns harmless from and against all claims, losses and damages, including legal fees and expenses, arising out of (a) the use, maintenance, condition or management of, or from any work or thing done on the Water Enterprise by the Authority, (b) any breach or default on the part of the Authority in the performance of any of its obligations under this Agreement, (c) any negligence or willful misconduct of the Authority or of any of its agents, contractors, servants, employees or licensees with respect to the Water Enterprise, (d) any act or negligence of any sublessee of the Authority with respect to the Water Enterprise, (e) the performance by the Trustee of its duties and obligations under the Indenture, (f) the presence on, under or about, or release from, the Water Enterprise of any substance, material or waste which is, or which

becomes, regulated or classified as hazardous or toxic under State, federal or local law, or (g) the offer, sale and issuance of the Bonds. No indemnification is made under this Section 6.2 or elsewhere in this Agreement for adjudicated willful misconduct or negligence by the Authority, the Trustee or their respective officers, employees, successors or assigns. The obligations of the Authority under this Section 6.2 shall survive the termination of this Agreement.

Section 6.3 Non-Liability of City for Water Enterprise Obligations. The City and its successor and assigns shall have no obligation and shall incur no liabilities or debts whatsoever for the obligations, liabilities and debts of the Authority incurred in connection with the lease and operation of the Water Enterprise.

ARTICLE 7

ASSIGNMENT, SALE AND AMENDMENT

Section 7.1 Assignment by the Authority. This Agreement may not be assigned by the Authority or the City.

Section 7.2 Sale of Water Enterprise. Except as provided in the Indenture and subject to the provisions of the Authority's Joint Powers Agreement, the Authority covenants that its interest in the Water Enterprise shall not be encumbered, sold, leased, pledged, any charge placed thereon, or otherwise disposed of, as a whole or substantially as a whole, except to another public entity and with the prior written consent of the Bond Insurer. Neither the Surplus Revenues nor any other funds pledged or otherwise made available to secure payment of the Lease Payments shall be mortgaged, encumbered, sold, leased, pledged, any charge placed thereon, or disposed or used except as authorized by the terms of this Agreement. The Authority shall not enter into any agreement which impairs the operation of the Water Enterprise or any part of it necessary to secure adequate Surplus Revenues to pay the Lease Payments, or which otherwise would impair the rights of the City with respect to the Surplus Revenues. If any substantial part of the Water Enterprise shall be sold, the payment therefor shall either (a) be used for the lease, acquisition or construction of improvements, extensions or replacements of Water Enterprise, or (b) be applied to prepay the Debt Service, redeem outstanding Bonds and prepay the Lease Payments, in the same order of priority.

Section 7.3 Amendment of Agreement. The City and the Authority shall have the right to modify or amend this Agreement upon the written consent of each party hereto.

ARTICLE 8

EVENTS OF DEFAULT

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

(a) Failure by the Authority to observe and perform any covenant, condition or agreement on its part to be observed or performed, other than failure to pay when due any Lease Payment or other amount due under this Agreement, for a period of sixty (60) days after written notice specifying such failure and requesting that it be remedied has been given to the Authority

by the City; provided, however, that if the Authority shall notify the City that in its reasonable opinion the failure stated in the notice can be corrected, but not within such 60-day period, such failure shall not constitute an event of default hereunder if the City shall commence to cure such failure within such sixty (60) day period and thereafter diligently and in good faith cure such failure in a reasonable period of time.

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

Section 8.2 Remedies on Default. Whenever any Event of Default shall have happened and be continuing the Authority, upon receipt of actual knowledge thereof, shall promptly give written notice thereof to the City, and the City shall have the right, at its option and without any further demand or notice, but subject in all respects to the provisions of Article VIII of the 1996 Trust Agreement, to

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

(b) as a matter of right, in connection with the filing of a suit or other commencement of judicial proceedings to enforce the rights of the City hereunder, cause the appointment of a receiver or receivers of the Surplus Revenues and other amounts pledged hereunder, with such powers as the court making such appointment shall confer;

Provided, however, that the City shall not have the right to declare all principal components of the unpaid Lease Payments, together with accrued interest thereon, to be immediately due and payable.

Section 8.3 No Remedy Exclusive. No remedy herein conferred upon or reserved to the City is intended to be exclusive and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Agreement or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Authority to exercise any remedy reserved to it in this Article 8 it shall not be necessary to give any notice, other than such notice as may be required in this Article 8 or by law.

Section 8.4 Agreement to Pay Attorneys' Fees and Expenses. In the event either party to this Agreement should default under any of the provisions hereof and the nondefaulting party should employ attorneys or incur other expenses for the collection of moneys or the

enforcement or performance or observance of any obligation or agreement on the part of the defaulting party herein contained, the defaulting party agrees that it will on demand therefor pay to the nondefaulting party the reasonable fees of such attorneys and such other expenses so incurred.

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

ARTICLE 9

PREPAYMENT OF LEASE PAYMENTS

Section 9.1 Security Deposit. Notwithstanding any other provision of this Agreement, the Authority may on any date secure the payment of Lease Payments in whole or in part by irrevocably depositing with the City an amount of cash which is either (a) sufficient to pay all such Lease Payments, or (b) invested in whole or in part in non-callable Federal Securities in such amount as will, in the written opinion of an Independent Accountant, together with interest to accrue thereon and together with any cash which is so deposited, be fully sufficient to pay all such Lease Payments when due pursuant to Section 4.3(a) or when due on any optional prepayment date pursuant to Section 9.2, as the Authority shall instruct at the time of said deposit. In the event of a security deposit pursuant to this Section 9.1 with respect to all of the Lease Payments, all obligations of the Authority under this Agreement, and all security provided by this Agreement for said obligations, shall cease and terminate, excepting only the obligation of the Authority to make, or cause to be made, all of such Lease Payments from such security deposit, and the obligation of the Authority to compensate and indemnify City and the Trustee pursuant to Section 6.2 herein and Section 8.06 of the Indenture. Said security deposit shall be deemed to be and shall constitute a special fund for the payment of Lease Payments in accordance with the provisions of this Agreement.

Section 9.2 Optional Prepayment. The Authority may prepay the Lease Payments in whole or in part, on any date.

Section 9.3 Mandatory Prepayment From Proceeds of Insurance, Sale or Eminent Domain. The Authority shall be obligated to prepay the Lease Payments on any date from and to the extent of any remaining proceeds of insurance award, sale of a substantial portion of the Water Enterprise or condemnation award with respect to the Water Enterprise theretofore paid to the Trustee for such purpose pursuant to the 1996 Trust Agreement. The City and the Authority hereby agree that such proceeds, to the extent remaining after payment of any delinquent Lease Payments, shall be credited towards the Authority's obligations under this Section 9.3.

ARTICLE 10

MISCELLANEOUS

Section 10.1 Further Assurances. The City agrees that it will execute and deliver any and all such further agreements, instruments or other assurances as may be reasonably necessary or requested by the Authority or the Trustee to carry out the intention or to facilitate the performance of this Agreement.

Section 10.2 Amendment. The Authority and the City may amend this Agreement upon the written consent of each party hereto.

Section 10.3 Notices. Any notice, request, complaint, demand or other communication under this Agreement shall be given by first class mail or personal delivery to the party entitled thereto at its address set forth below, or by telecopy, telex or other form of telecommunication, at its number set forth below. Notice shall be effective either (a) upon confirmed transmission by telecopy, telex or other form of telecommunication, (b) 48 hours after deposit in the United States mail, postage prepaid, or (c) in the case of personal delivery to any person, upon actual receipt. The Authority, the City or the Trustee 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 Authority: South Gate Utility Authority
8650 California Avenue
South Gate, California 90280
Attn: Executive Director

If to the City: City of South Gate
8650 California Avenue
South Gate, California 90280
Attn: City Manager

Section 10.4 Governing Law. This Agreement shall be construed in accordance with and governed by the laws of the State of California.

Section 10.5 Binding Effect. This Agreement shall inure to the benefit of and shall be binding upon the Authority and the City, and their respective successors and assigns, subject, however, to the limitations contained herein.

Section 10.6 Severability of Invalid Provisions. If any one or more of the provisions contained in this Agreement shall for any reason be held to be invalid, illegal or unenforceable in any respect, then such provision or provisions shall be deemed severable from the remaining provisions contained in this Agreement and such invalidity, illegality or unenforceability shall not affect any other provision of this Agreement, and this Agreement shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein. The Authority and the City each hereby declares that it would have entered into this Agreement and each and every other Section, paragraph, sentence, clause or phrase hereof irrespective of the fact that any one or more Sections, paragraphs, sentences, clauses or phrases of this Agreement may be held illegal, invalid or unenforceable.

Section 10.7 Article and Section Headings and References. The headings or titles of the several Articles and Sections hereof, and any table of contents appended to copies hereof, shall be solely for convenience of reference and shall not affect the meaning, construction or effect of this Agreement. All references herein to “Articles,” “Sections” and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Agreement; the words “herein,” “hereof,” “hereby,” “hereunder” and other words of similar import refer to this Agreement as a whole and not to any particular Article, Section or subdivision hereof; and words of the masculine gender shall mean and include words of the feminine and neuter genders.

Section 10.8 Execution of Counterparts. This Agreement may be executed in any number of counterparts, each of which shall for all purposes be deemed to be an original and all of which shall together constitute but one and the same instrument.

Section 10.9 Waiver of Personal Liability. No member of the Authority, nor any member of the governing board of the Authority or its members, nor any officer, agent or employee of the Authority or its members shall be individually or personally liable for the payment of Lease Payments or be subject to any personal liability or accountability by reason of this Agreement; but nothing herein contained shall relieve any such member or person from the performance of any official duty provided by law or by this Agreement.

Section 10.10 Benefit of Agreement. Nothing in this Agreement, expressed or implied, is intended to give to any person other than the Authority, the City, the Bond Insurer, the Trustee and the Bondowners any right, remedy or claim under or by reason of this Agreement.

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

CITY OF SOUTH GATE, as Lessor

By: _____
Mayor

SOUTH GATE UTILITY AUTHORITY, as
Lessee

By: _____
Executive Director

EXHIBIT A

DESCRIPTION OF THE WATER ENTERPRISE

Water Enterprise means the entire water treatment, production, storage and distribution system currently owned or operated by the City, including but not limited to all facilities, properties and improvements at any time owned or operated by the Authority for the collection, treatment and supply of water to residents served thereby, whether within or without the City, 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 Authority.