

OTAY WATER DISTRICT
SPECIAL MEETING OF THE BOARD OF DIRECTORS
DISTRICT BOARDROOM

2554 SWEETWATER SPRINGS BOULEVARD
SPRING VALLEY, CALIFORNIA

WEDNESDAY
March 23, 2016
3:30 P.M.

AGENDA

1. ROLL CALL
2. PLEDGE OF ALLEGIANCE
3. APPROVAL OF AGENDA
4. PUBLIC PARTICIPATION – OPPORTUNITY FOR MEMBERS OF THE PUBLIC TO SPEAK TO THE BOARD ON ANY SUBJECT MATTER WITHIN THE BOARD'S JURISDICTION BUT NOT AN ITEM ON TODAY'S AGENDA

ACTION ITEMS

5. ADOPT RESOLUTION NO. 4297 AUTHORIZING THE ISSUANCE OF OTAY WATER DISTRICT 2016 WATER REVENUE REFUNDING BONDS, NOT-TO-EXCEED \$40,000,000, AND APPROVING THE EXECUTION AND DELIVERY OF RELATED DOCUMENTS AND TAKING OTHER RELATED ACTIONS NECESSARY FOR THE REFINANCING OF THE 2007 CERTIFICATES OF PARTICIPATION (BEACHEM/BELL)

RECESS TO CLOSED SESSION

6. **CLOSED SESSION**

- a) PUBLIC EMPLOYEE PERFORMANCE EVALUATION: PERIODIC AND CUSTOMARY REVIEW IN DUE COURSE [GOVERNMENT CODE §54957.6]

TITLE: GENERAL COUNSEL

RETURN TO OPEN SESSION

7. REPORT ON ANY ACTIONS TAKEN IN CLOSED SESSION. THE BOARD MAY ALSO TAKE ACTION ON ANY ITEMS POSTED IN CLOSED SESSION
8. ADJOURNMENT



AGENDA ITEM 5

STAFF REPORT

TYPE MEETING: Special Board

MEETING DATE: March 23, 2016

PROJECT: DIV. NO. All

SUBMITTED BY: Rita Bell, Finance Manager

APPROVED BY: Joseph R. Beachem, Chief Financial Officer
 German Alvarez, Assistant General Manager
 Mark Watton, General Manager

SUBJECT: Adopt Resolution No. 4297 Authorizing the Issuance of Otay Water District 2016 Water Revenue Refunding Bonds, Not-to-Exceed \$40,000,000, and Approving the Execution and Delivery of Related Documents and Taking Other Related Actions Necessary for the Refinancing of the 2007 Certificates of Participation

GENERAL MANAGER'S RECOMMENDATION:

Adopt Resolution No. 4297 authorizing the issuance of Otay Water District 2016 Water Revenue Refunding Bonds, not-to-exceed \$40,000,000, and approving the execution and delivery related documents and taking other related actions necessary for the refinancing of the 2007 Certificates of Participation.

COMMITTEE ACTION:

Not applicable.

PURPOSE:

To obtain Board authorization to issue Water Revenue Refunding Bonds to refinance the District's outstanding 2007 Certificates of Participation (COPs) and reduce annual debt service for the remaining 21 years that the Certificates of Participation are outstanding.

ANALYSIS:

In 2007, the District issued the \$42,000,000 - 2007 Certificates of Participation. The proceeds of the 2007 COPs were issued to raise funds to construct reservoirs, pump stations, and pipelines.

The outstanding principal balance of the 2007 COPs is \$34,760,000. The remaining 2007 COPs bear interest at an effective rate of 4.28% and are scheduled to mature on September 1, 2036.

The 2007 COPs are currently eligible for refinancing at lower interest rates via an advanced refunding. Current market conditions would allow the District to refinance the outstanding balance at an effective rate of approximately 2.9%. The refinancing would save the District approximately \$3,620,000 over the remaining 21 years that the 2007 COPs are outstanding or an average of \$172,000 annually. Overall, this represents a 6.9% reduction in total debt service through the final maturity of the 2007 COPs in 2036. The cash flow savings has a present value of 8.0% of the outstanding par amount of the 2007 COPs.

The District's Debt Policy (Policy 45) states that the District may commence the refinancing process if a minimum five percent (5%) present value savings net of issuance costs and any cash contributions can be demonstrated. Beginning the process with at least a 5% savings should provide the District with some level of protection that it can achieve a minimum of three percent (3%) net present value savings of the refunding bonds when and if the debt is issued.

Assisting the staff on the issuance of the refinancing are Stradling Yocca Carlson & Rauth as bond counsel and disclosure counsel, and Harrell & Company Advisors, LLC as financial advisor.

The proposed method of financing is through the issuance of water revenue refunding bonds by the District, secured by Taxes and Net Revenues of the Water System. The bonds will be paid on parity with the District's outstanding 1996 COPs, 2010 Water Revenue Bonds, and 2013 Water Refunding Bonds. The bonds will be issued under the provisions of the Refunding Bond Law, and under such provisions, can be issued directly by the District without the need to include the Otay Service Corporation or Otay Water District Financing Authority as in prior District financings.

The District's financial advisor is recommending a competitive sale of the bonds. This recommendation is based on current market conditions and the fact that there has been renewed interest in highly rated utility bonds by the competitive bidders. The District has only used a negotiated sale method when issuing Build America Bonds in 2010. A negotiated sale method works best when there is a

special feature relating to the bonds (such as the taxable component and special redemption feature on the Build America Bonds) or there are other market factors that could result in lower investor interest in the bonds.

Bonds sold as a competitive sale can be sold above, below or at par. If the bonds are sold at par, the financing size would be \$37,050,000. If the bonds are sold at a premium or above par, the amount of bonds to be sold would be less than \$37 million. Should they be sold at a discount, this will increase the amount of bonds needed to be issued. This is why staff is requesting a not-to-exceed \$40 million, to give the flexibility needed on a competitive sale for the winning bidder's preferred pricing.

The 2007 COPs are not subject to optional redemption prior to 2017. The District will take the proceeds of the 2016 Bonds and set that aside in an irrevocable escrow fund held by the trustee to pay the principal and interest on the 2007 COPs as it becomes due through and including September 1, 2017, and to redeem the remaining outstanding balance at that time of \$32,570,000. This refinancing will occur more than 90 days before the redemption date and is known as an "advance" refunding. The tax law for tax-exempt bonds limits the District to one advance refunding for any particular bond. As a result of the advance refunding of the 2007 COPs, any refinancing of the 2016 Bonds could not be done until their own call date in 10 years. However, due to the extremely favorable interest rates on the 2016 Bonds, it would be unlikely that the District would save any money by advance refunding the 2016 Bonds, so using the one opportunity to advance refund the 2007 COPs and save 8% today makes economic sense. The remaining 10 years of the 2016 Bonds (2026 to 2036) could be refinanced in 2026 if there were savings to be achieved at that time.

Staff considered waiting until 2017 to refinance the 2007 COPs, but did not calculate an advantage to the District given the increase in interest rates expected in the next 18 months.

In order to authorize the issuance of the bonds, the Board has been presented with a resolution for its consideration. The resolution approves the form of the following documents in connection with the financing:

- A Preliminary Official Statement(Attachment C);
- A Continuing Disclosure Agreement (Attachment D);
- An Indenture of Trust between the District and MUFG Union Bank, N.A., as trustee (Attachment E);
- An Escrow Agreement between the District and MUFG Union Bank, N.A., as escrow bank for the 2007 COPs (Attachment F); and
- An Official Notice of Sale containing terms and conditions for the competitive bid for the bonds (Attachment G).

The resolution also approves the distribution of the Preliminary Official Statement and Official Notice of Sale relating to the bonds and authorizes award of the bond sale, within certain parameters. These parameters are: (1) the par amount of the bonds cannot exceed \$40,000,000; (2) the true interest cost on the bonds must be less than 4%; and (3) the underwriters' discount cannot exceed 1% of the par amount of the bonds. The resolution authorizes the General Manager or Chief Financial Officer to reject all bids if the winning bid does not meet the District's savings goal for the refinancing.

The documents are attached hereto, in draft form, and will be modified to reflect the terms of the actual sale of the bonds. The bonds will only be issued in an amount necessary to refund the 2007 COPs and pay costs of issuance.

FISCAL IMPACT: Joe Beachem, Chief Financial Officer

The advanced refinancing of 2007 COPs is expected to save the District approximately \$3.6 million in debt service over 21 years. This savings is net of issuance costs.

The costs of issuance associated with the bonds, including fees and expenses of the District's counsel, consultants and advisors, printing costs, rating fees and trustee fees, will be paid from proceeds of the bonds. Total costs of issuance, including underwriting fees, are estimated to be \$450,000 based on an estimated par amount of bonds to be issued of \$37 million. Costs of issuance are estimated as follows:

Bond Counsel & Disclosure Counsel	\$	55,000
Official Statement Preparation		10,000
Financial Advisor		42,500
Trustee		8,000
Printing		1,200
District Counsel		2,500
Rating Fees		20,000
Notice Publication		2,300
Verification		2,500
Bidding Platform		3,500
Other Expenses		2,500
		<hr/>
		150,000
Underwriter		300,000
		<hr/>
	\$	450,000

STRATEGIC GOAL:

The District ensures its continued financial health through long-term financial planning and debt planning.

LEGAL IMPACT:

None.

Attachments: Attachment A - Presentation
Attachment B - Resolution No. 4297
Attachment C - Preliminary Official Statement
Attachment D - Continuing Disclosure Agreement
Attachment E - Indenture of Trust between the District
and MUFG Union Bank, N.A.
Attachment F - Escrow Agreement between the District
and MUFG Union Bank, N.A.
Attachment G - Official Notice of Sale
Attachment H - Summary of Responsibility Letter

REFINANCING 2007 CERTIFICATES OF PARTICIPATION

MARCH 23, 2016



2007 CERTIFICATES OF PARTICIPATION

- \$42,000,000 COPs issued in 2007 to finance new capital improvements, including 640-1 and 640-2 reservoirs
- Final maturity in 2036
- Average interest rate of remaining 2007 COPs is 4.29%

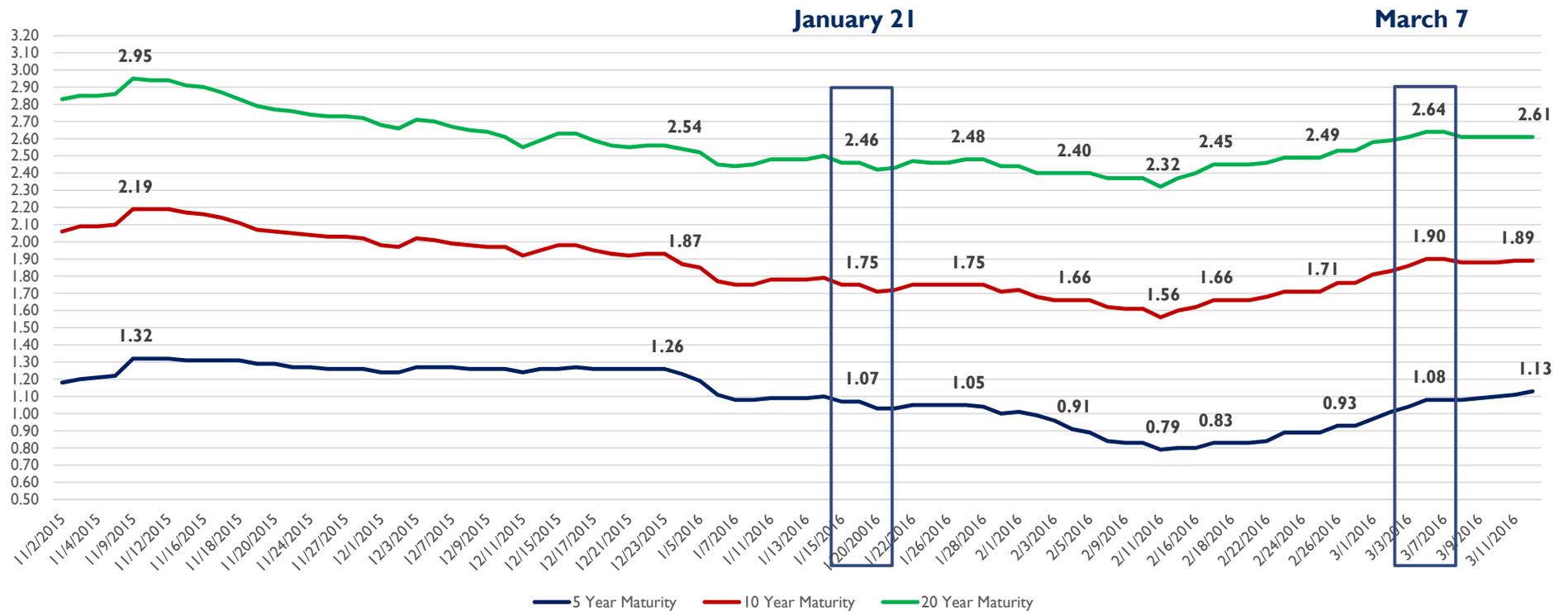
REFINANCING OPPORTUNITY

- Current market conditions provide opportunity to refinance 2007 COPs at a rate of 2.9%
- Based on interest rates of March 7, 2016
- Present value savings of approximately 8% of existing COPs
- Total savings are approximately \$3.6 million or 6.9% reduction in actual debt service payments
- Average reduction \$172,000 annually for 21 Fiscal Years

ESTIMATED BOND SIZE

2007 Bonds Redemption	\$36,600,000
Costs of Issuance	150,000
Underwriter Compensation	300,000
<hr/>	
Estimated Bond Size	\$37,050,000

VOLATILE MUNICIPAL MARKET DATA (MMD) INDEX SINCE JANUARY 2016



CHANGING MARKET CONDITIONS

	October 2015	January 2016	March 7, 2016	25 bp Increase	40 bp Increase
Refunding Bonds Yield	3.36%	2.80%	2.90%	3.15%	3.30%
2007 Bond Interest Rate	4.28%	4.28%	4.28%	4.28%	4.28%
NPV Savings	609,000	2,950,000	2,784,000	1,938,000	1,291,000
NPV Savings %	1.75%	8.49%	8.00%	5.57%	3.70%
Total \$ Savings	572,000	3,779,000	3,620,000	2,560,000	1,736,000
% of Existing Payments	1.1%	7.2%	6.9%	4.9%	3.3%
Annual Savings	27,000	180,000	172,000	122,000	83,000

RESOLUTION AUTHORIZING SALE

- Form of Indenture for 2016 Bonds
- Form of Escrow Agreement for 2007 Bonds
- Form of Preliminary Official Statement
- Form of Official Notice of Sale
- Authorize General Manager and CFO to award sale based on parameters
 - Not to exceed \$40 million
 - Effective Interest Rate not to Exceed 4%
 - Underwriter Compensation not to exceed 1% of Bonds Issued

TIMING

- Time is of the essence
 - Approval by the Board – March 23
 - Print Notice of Sale – April 4
 - S&P Rating Assigned – April 5
 - Print Preliminary Official Statement - April 6
 - One week of pre-marketing to investors
- Competitive sale on April 13

RESOLUTION NO. 4297**RESOLUTION OF THE BOARD OF DIRECTORS OF THE OTAY WATER DISTRICT AUTHORIZING THE ISSUANCE OF NOT TO EXCEED \$40,000,000 2016 WATER REVENUE REFUNDING BONDS AND APPROVING THE EXECUTION AND DELIVERY OF CERTAIN DOCUMENTS IN CONNECTION THEREWITH AND CERTAIN OTHER MATTERS**

WHEREAS, the Otay Water District (the “District”), a municipal water district duly organized and existing under and pursuant to the Constitution and laws of the State of California (the “State”), proposes to undertake the refinancing of certain facilities that were financed with the proceeds of the Otay Water District Revenue Certificates of Participation (2007 Water System Project) Series 2007 (the “2007 Certificates”); and

WHEREAS, this Board of Directors (the “Board”) has determined that it is in the best interest of the District to issue the Otay Water District 2016 Water Revenue Refunding Bonds (the “Bonds”) to effect such refinancing by defeasing and prepaying the 2007 Certificates; and

WHEREAS, this Board desires to approve various documents and authorize certain actions to be taken in order to issue the Bonds and defease and prepay the 2007 Certificates;

NOW, THEREFORE, the Board of Directors of the Otay Water District does hereby resolve as follows:

Section 1. Each of the above recitals is true and correct and is adopted by the legislative body of the District.

Section 2. The Indenture of Trust, in substantially the form on file with the Board, is hereby approved. Each of the Board President, the Board Vice President, the Board Treasurer, the General Manager of the District and the Chief Financial Officer of the District and their written designees (each an “Authorized Officer” and, collectively, the “Authorized Officers”), acting alone, is hereby authorized and directed to execute and deliver the Indenture of Trust with such changes, insertions and omissions as may be recommended by General Counsel or Stradling Yocca Carlson & Rauth, as Bond Counsel (“Bond Counsel”), and approved by the Authorized Officer or Authorized Officers executing the same, said execution being conclusive evidence of such approval.

Section 3. The Board hereby authorizes the preparation, sale and delivery of the Bonds in an aggregate principal amount not to exceed \$40,000,000 (except that such amount may be increased with the approval of the General Manager to provide for original issue discount to the extent that such original issue discount will result in a lower interest rate or yield to maturity with respect to the Bonds) in accordance with the terms and provisions of the Indenture of Trust.

Section 4. The Board hereby authorizes the sale of the Bonds by competitive bid pursuant to a Notice of Sale (defined herein) in accordance with Section 5 below.

Section 5. The form of notice of sale for the Bonds (the “Notice of Sale”), substantially in the form on file with the Board, is hereby approved and each of the Authorized Officers, acting

alone, is hereby authorized to direct the sale of the Bonds on a competitive basis in accordance with the terms hereof and the Notice of Sale in substantially said form, with such changes as the Authorized Officer executing the same may require or approve to reflect the final terms of the sale. A summary of the Notice of Sale shall be published by the Municipal Advisor on behalf of the District in accordance with any notice requirements imposed by law. The Bonds shall be sold for such purposes and in such principal amount as are described above and in the Preliminary Official Statement, provided that (i) the purchaser price for the Bonds shall not be less than 99% of the aggregate amount of principal thereof, (ii) the true interest cost of the Bonds as calculated by the Municipal Advisor shall not exceed 4.0%, and (iii) the sale shall be approved by the General Manager or the Chief Financial Officer of the District as evidenced by a written acceptance of such winning bid. However, the General Manager or the Chief Financial Officer may reject all bids should such Authorized Officer determine that none of the bids would serve the best interest of the District.

Section 6. The preparation and distribution of the Preliminary Official Statement, in substantially the form presented to the Board, is hereby approved. Each of the Authorized Officers, acting alone, is hereby authorized to sign a certificate pursuant to Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 relating to the Preliminary Official Statement and is further authorized and directed to execute, approve and deliver the Official Statement substantially in the form of the Preliminary Official Statement, with such changes, insertions and omissions as may be recommended by General Counsel or Bond Counsel and approved by the Authorized Officer executing the same, said execution being conclusive evidence of such approval. The General Manager and the Chief Financial Officer are hereby authorized to cause to be distributed copies of the Preliminary Official Statement to persons who may be interested in the initial purchase of the Bonds and is directed to deliver copies of any final Official Statement to all actual initial purchasers of the Bonds.

Section 7. The Continuing Disclosure Agreement, in substantially the form on file with the Board is hereby approved. Each of the Authorized Officers, acting alone, is hereby authorized and directed to execute and deliver the Continuing Disclosure Agreement with such changes, insertions and omissions as may be recommended by General Counsel or Bond Counsel and approved by the Authorized Officer executing the same, said execution being conclusive evidence of such approval. Harrell & Company Advisors, LLC is hereby approved to act as the Dissemination Agent.

Section 8. The Escrow Agreement, in substantially the form on file with the Board is hereby approved. Each of the Authorized Officers, acting alone, is hereby authorized and directed to execute and deliver the Escrow Agreement with such changes, insertions and omissions as may be recommended by General Counsel or Bond Counsel and approved by the Authorized Officer executing the same, said execution being conclusive evidence of such approval. Grant Thornton LLP is approved to act as the verification agent to verify the amounts necessary to effect the defeasance of the 2007 Certificates.

Section 9. MUFG Union Bank, N.A. is hereby appointed to act as trustee under the Indenture of Trust and as escrow agent under the Escrow Agreement.

Section 10. The Board has previously selected and approved agreements for services with Bond Counsel with respect to the issuance of the Bonds and Harrell & Company Advisors, LLC as the Municipal Advisor to the District with respect to the issuance of the Bonds. Each of the

Authorized Officers, acting alone, is hereby authorized to pay Bond Counsel and the Municipal Advisor as a cost of issuance from proceeds of the Bonds and to pay other costs of issuance necessary to issue the Bonds.

Section 11. Each of the Authorized Officers, acting alone, is hereby authorized (a) to solicit bids on a municipal bond insurance policy, (b) to negotiate the terms of such policy, (c) to finalize the form of such policy with a municipal bond insurer, and (d) to pay the insurance premium of such policy from the proceeds of the sale of the Bonds if it is determined by an Authorized Officer that acquiring such policy will result in debt service savings to the District which exceed the cost of acquiring the policy.

Section 12. Each of the Authorized Officers, acting alone, is authorized and directed to execute and deliver any and all documents and instruments and to do and cause to be done any and all acts and things necessary or proper for carrying out the transactions contemplated by the Indenture of Trust, the Notice of Sale, the Continuing Disclosure Agreement, the Official Statement, the Escrow Agreement and this resolution.

Section 13. Unless otherwise defined herein, all terms used herein and not otherwise defined shall have the meanings given such terms in the Indenture of Trust unless the context otherwise clearly requires.

Section 14. This resolution shall take effect immediately.

ADOPTED, SIGNED and APPROVED at a regular meeting of the District this 23rd day of March, 2016.

President of the Board of Directors

Attest:

Secretary of the Board of Directors

PRELIMINARY OFFICIAL STATEMENT DRAFT DATED MARCH 17, 2016**NEW ISSUE - BOOK-ENTRY****RATING**S&P:

(See "CONCLUDING INFORMATION - Rating on the Bonds" herein)

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California ("Bond Counsel"), under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest (and original issue discount) on the Bonds is exempt from State of California personal income tax. See "TAX MATTERS" herein.

SAN DIEGO COUNTY**STATE OF CALIFORNIA****\$35,000,000***

**OTAY WATER DISTRICT
2016 WATER REVENUE REFUNDING BONDS**

Dated: Date of Delivery**Due: September 1, as shown on the inside front cover page.**

The cover page contains certain information for general reference only. It is not a summary of the issue. Potential investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision. See "RISK FACTORS" herein for a discussion of special risk factors that should be considered in evaluating the investment quality of the Bonds.

The Otay Water District 2016 Water Revenue Refunding Bonds (the "Bonds") are payable from and secured by a lien on Taxes and Net Revenues of the Water System (the "Water System") of the Otay Water District (the "District") as described herein. The Bonds will be issued pursuant to an Indenture of Trust, dated as of May 1, 2016 (the "Indenture"), by and between the Otay Water District and MUFG Union Bank, N.A., as trustee (the "Trustee"). The Bonds are being issued to provide funds to refinance outstanding obligations of the District. See "THE FINANCING PLAN" herein. (See "SOURCES OF PAYMENT FOR THE BONDS" and "RISK FACTORS" herein.)

Interest on the Bonds is payable on September 1, 2016, and semiannually thereafter on March 1 and September 1 of each year until maturity. The Bonds are subject to optional redemption and sinking fund redemption prior to maturity (see "THE BONDS - General Provisions" and "THE BONDS - Redemption" herein).

The Bonds are limited obligations of the District payable solely from Taxes and Net Revenues of the Water System, and neither the full faith and credit nor the taxing power of the District, the State of California or any of its political subdivisions is pledged for the payment of the Bonds.

The Bonds are offered, when, as and if issued, subject to the approval as to their legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, and certain other conditions. Certain legal matters will be passed on for the District by Artiano, Shinoff & Holtz, LLP, San Diego, California, as General Counsel to the District, and by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, as Disclosure Counsel. It is anticipated that the Bonds, in book-entry form, will be available for delivery through the facilities of The Depository Trust Company on or about May 4, 2016 (see "THE BONDS - General Provisions - Book-Entry-Only System" herein).

The date of the Official Statement is _____, 2016.

* Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful under the securities laws of such jurisdiction.

\$35,000,000*
OTAY WATER DISTRICT
2016 WATER REVENUE REFUNDING BONDS

MATURITY SCHEDULE

(Base CUSIP®† _____)

<u>Maturity Date</u> <u>September 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Reoffering</u> <u>Yield</u>	<u>CUSIP®†</u>
2017				
2018				
2019				
2020				
2021				
2022				
2023				
2024				
2025				
2026				
2027				
2028				
2029				
2030				
2031				
2032				
2033				
2034				
2035				
2036				

* Preliminary, subject to change.

† Copyright 2016, American Bankers Association. CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services Bureau, operated by Standard & Poor's. This data is not intended to create a database and does not serve in any way as a substitute for CUSIP Global Services. CUSIP numbers have been assigned by an independent company not affiliated with the District and are included solely for the convenience of the holders of the Bonds. None of the District, the Municipal Advisor or the Underwriter takes any responsibility for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the Bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

Use of Official Statement. This Official Statement is submitted in connection with the offer and sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not to be construed as a contract with the purchasers of the Bonds.

Effective Date. This Official Statement speaks only as of its date, and the information and expressions of opinion contained in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale of the Bonds will, under any circumstances, create any implication that there has been no change in the affairs of the District or any other parties described in this Official Statement.

Estimates and Forecasts. When used in this Official Statement and in any continuing disclosure by the District, any press release and any oral statement made with the approval of an authorized officer of the District or any other entity described or referenced herein, the words or phrases “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimate,” “project,” “forecast,” “expect,” “intend” and similar expressions identify “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

Limit of Offering. No dealer, broker, salesperson or other person has been authorized by the District to give any information or to make any representations in connection with the offer or sale of the Bonds other than those contained herein and if given or made, such other information or representation must not be relied upon as having been authorized by the District or the Municipal Advisor. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

Preparation of this Official Statement. The information contained in this Official Statement has been obtained from sources that are believed to be reliable, but this information is not guaranteed as to accuracy or completeness. The information and expressions of opinions herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District since the date hereof. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the District. All summaries of the Bonds, the Indenture or other documents, are made subject to the provisions of such documents and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the District Secretary for further information. See “INTRODUCTION - Summaries Not Definitive.”

The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

Bonds are Exempt from Securities Laws Registration. The issuance, sale and delivery of the Bonds has not been registered under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, in reliance upon exemptions for the execution, sale and delivery of municipal securities provided under Section 3(a)(2) of the Securities Act of 1933 and Section 3(a)(12) of the Securities Exchange Act of 1934.

Stabilization of Prices. In connection with this offering, the Underwriter may overallocate or effect transactions which stabilize or maintain the market price of the Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the Bonds to certain dealers and others at prices lower than the public offering prices set forth on the inside cover page hereof and said public offering prices may be changed from time to time by the Underwriter.

District Website. The District maintains a website. The information on such website is not part of this Official Statement and is not intended to be relied on by investors with respect to the Bonds unless specifically set forth or incorporated herein.

**OTAY WATER DISTRICT
SAN DIEGO COUNTY, CALIFORNIA**

BOARD OF DIRECTORS

Mitchell Thompson, *President - Division 2*
Jose Lopez, *Vice President - Division 4*
Tim Smith, Jr., *Treasurer - Division 1*
Gary D. Croucher, *Division 3*
Mark Robak, *Division 5*

MANAGEMENT TEAM

Mark Watton, *General Manager*
German Alvarez, *Assistant General Manager*
Joseph R. Beachem, *Chief Financial Officer*
Rod Posada, *Chief of Engineering*
Pedro Porras, *Chief of Water Operations*
Jose Martinez, *Assistant Chief of Water Operations*
Adolfo Segura, *Chief of Administrative Services*

PROFESSIONAL SERVICES

Bond Counsel and Disclosure Counsel

Stradling Yocca Carlson & Rauth, a Professional Corporation
Newport Beach, California

General Counsel to the District

Artiano, Shinoff & Holtz, LLP
San Diego, California

Municipal Advisor

Harrell & Company Advisors, LLC
Orange, California

Trustee

MUFG Union Bank, N.A.
Los Angeles, California

Verification Agent

Grant Thornton LLP
Minneapolis, Minnesota

TABLE OF CONTENTS

<p>INTRODUCTION1</p> <p style="padding-left: 20px;">The District 1</p> <p style="padding-left: 20px;">Sources of Payment for the Bonds..... 1</p> <p style="padding-left: 20px;">Legal Matters.....2</p> <p style="padding-left: 20px;">Professional Services.....2</p> <p style="padding-left: 20px;">Offering of the Bonds2</p> <p style="padding-left: 20px;">Summaries Not Definitive3</p> <p>THE BONDS3</p> <p style="padding-left: 20px;">General Provisions.....3</p> <p style="padding-left: 20px;">Redemption.....4</p> <p style="padding-left: 20px;">Scheduled Debt Service.....6</p> <p>THE FINANCING PLAN.....8</p> <p style="padding-left: 20px;">The Refunding Program..... 8</p> <p style="padding-left: 20px;">Estimated Sources and Uses of Funds9</p> <p>OTAY WATER DISTRICT 11</p> <p>THE WATER SYSTEM12</p> <p style="padding-left: 20px;">Existing Facilities 12</p> <p style="padding-left: 20px;">Water Storage..... 13</p> <p style="padding-left: 20px;">Water Supply 13</p> <p style="padding-left: 20px;">Capital Improvement Program..... 18</p> <p style="padding-left: 20px;">Water Service.....20</p> <p style="padding-left: 20px;">Water Charges.....21</p> <p style="padding-left: 20px;">Taxes.....25</p> <p style="padding-left: 20px;">Personnel26</p> <p style="padding-left: 20px;">Retirement Program.....27</p> <p style="padding-left: 20px;">Other Post-Employment Benefits31</p> <p style="padding-left: 20px;">Insurance.....33</p> <p style="padding-left: 20px;">District Reserves and Investment Policy33</p> <p style="padding-left: 20px;">Outstanding Indebtedness of the District35</p> <p style="padding-left: 20px;">Historical Operating Results36</p> <p style="padding-left: 20px;">Historical Debt Service Coverage.....39</p> <p style="padding-left: 20px;">Projected Debt Service Coverage40</p> <p>SOURCES OF PAYMENT FOR THE BONDS44</p> <p style="padding-left: 20px;">General.....44</p> <p style="padding-left: 20px;">Taxes and Net Revenues44</p> <p style="padding-left: 20px;">Allocation of Taxes and Net Revenues45</p> <p style="padding-left: 20px;">No Reserve Fund for the Bonds.....46</p> <p style="padding-left: 20px;">Event of Default and Acceleration of Maturities46</p> <p style="padding-left: 20px;">Rate Covenant.....46</p> <p style="padding-left: 20px;">Parity Debt.....46</p> <p style="padding-left: 20px;">Property Insurance.....48</p> <p>CONSTITUTIONAL LIMITATIONS ON TAXES AND APPROPRIATIONS48</p> <p style="padding-left: 20px;">Article XIII B Gann Limit48</p> <p style="padding-left: 20px;">Proposition 218.....48</p> <p style="padding-left: 20px;">Future Initiatives.....51</p>	<p>RISK FACTORS.....51</p> <p style="padding-left: 20px;">System Demand51</p> <p style="padding-left: 20px;">Drought51</p> <p style="padding-left: 20px;">Increased Operation and Maintenance Costs51</p> <p style="padding-left: 20px;">Additional Obligations Payable from Taxes and Net Revenues51</p> <p style="padding-left: 20px;">Risks Relating to Water Supplies52</p> <p style="padding-left: 20px;">Environmental Regulation52</p> <p style="padding-left: 20px;">Proposition 218.....52</p> <p style="padding-left: 20px;">Casualty Risk; Earthquakes52</p> <p style="padding-left: 20px;">Interest Subsidy Payment; Sequestration53</p> <p style="padding-left: 20px;">Limited Recourse on Default53</p> <p style="padding-left: 20px;">Bankruptcy Risks53</p> <p style="padding-left: 20px;">No Obligation to Tax.....54</p> <p style="padding-left: 20px;">Change in Law54</p> <p style="padding-left: 20px;">Loss of Tax Exemption54</p> <p style="padding-left: 20px;">IRS Audit of Tax-Exempt Bond Issues54</p> <p style="padding-left: 20px;">Secondary Market Risk.....54</p> <p>TAX MATTERS.....54</p> <p>LEGAL MATTERS56</p> <p style="padding-left: 20px;">Enforceability of Remedies.....56</p> <p style="padding-left: 20px;">Approval of Legal Proceedings.....56</p> <p style="padding-left: 20px;">Litigation.....57</p> <p>CONCLUDING INFORMATION57</p> <p style="padding-left: 20px;">Rating on the Bonds.....57</p> <p style="padding-left: 20px;">Underwriting57</p> <p style="padding-left: 20px;">The Municipal Advisor57</p> <p style="padding-left: 20px;">Continuing Disclosure57</p> <p style="padding-left: 20px;">References.....58</p> <p style="padding-left: 20px;">Execution58</p> <p>APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS</p> <p>APPENDIX B - DISTRICT AUDITED FINANCIAL STATEMENTS</p> <p>APPENDIX C - ECONOMIC PROFILE FOR THE COUNTY OF SAN DIEGO</p> <p>APPENDIX D - FORM OF CONTINUING DISCLOSURE AGREEMENT</p> <p>APPENDIX E - PROPOSED FORM OF LEGAL OPINION OF BOND COUNSEL</p> <p>APPENDIX F - THE BOOK-ENTRY SYSTEM</p>
---	---

OTAY WATER DISTRICT LOCATION MAP



OFFICIAL STATEMENT
\$35,000,000*
OTAY WATER DISTRICT
2016 WATER REVENUE REFUNDING BONDS

This Official Statement which includes the cover page, the inside cover page and appendices (the “Official Statement”) is provided to furnish certain information concerning the sale and delivery of the Otay Water District 2016 Water Revenue Refunding Bonds (the “Bonds”) issued in the aggregate principal amount of \$35,000,000*.

INTRODUCTION

This Introduction contains only a brief description of this issue and does not purport to be complete. The Introduction is subject in all respects to more complete information in the entire Official Statement and the offering of the Bonds to potential investors is made only by means of the entire Official Statement and the documents summarized herein. Potential investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision (see “RISK FACTORS” herein). For definitions of certain capitalized terms used herein and not otherwise defined, and the terms relating to the Bonds, see the summary included in “APPENDIX A - SUMMARY OF INDENTURE” herein.

The District

The Otay Water District (the “District”) was established in 1956. The District is a municipal water district organized and existing under and in accordance with Division 20 of the Water Code of the State of California, commencing with Section 71000, as amended (the “Law”). The District’s boundaries currently encompass an area of approximately 125 square miles in San Diego County, lying immediately east of the San Diego metropolitan area and running from the City of El Cajon south to the Mexican border, abutting the cities of El Cajon and La Mesa and encompassing most of the City of Chula Vista and a small portion of the City of San Diego. The District currently serves a population of approximately 217,000 and expects the service area to experience moderate growth in the next ten years (see “OTAY WATER DISTRICT” and “APPENDIX C - ECONOMIC PROFILE FOR THE COUNTY OF SAN DIEGO” herein).

The District is administered by a Board of Directors consisting of five members who are elected to four-year alternating terms by the voters residing within the District’s boundaries. The District is divided into five divisions, with each Director representing a specific division within which he or she must reside. The positions of General Manager and General Counsel are filled by appointments of the Board. The District employs 138 full-time equivalent employees.

Sources of Payment for the Bonds

The Bonds are being issued pursuant to Section 53570 et seq. of the California Government Code and an Indenture of Trust, dated as of May 1, 2016 (the “Indenture”), by and between the District and MUFG Union Bank, N.A., Los Angeles, California, as trustee (the “Trustee”).

* Preliminary, subject to change.

The Bonds are secured by a charge and lien on Taxes and Revenues of the Water System and are payable from Taxes and Net Revenues, on a parity with:

- the payments required to be made by the District under an installment sale agreement dated as of June 1, 1996 (the “1996 Installment Sale Agreement”) securing the District’s outstanding Variable Rate Demand Certificates of Participation (1996 Capital Projects) (the “1996 Certificates”),
- the payments required to be made by the District under an installment purchase agreement dated as of March 1, 2010 (the “2010 Installment Purchase Agreement”) securing the Otay Water District Financing Authority’s outstanding Water Revenue Bonds, Series 2010A and Water Revenue Bonds, Series 2010B (collectively, the “2010 Bonds”), and
- The debt service payments on the District’s 2013 Water Revenue Refunding Bonds (the “2013 Bonds”).

See “SOURCES OF PAYMENT FOR THE BONDS” herein.

Collectively, the 1996 Installment Sale Agreement, the 2010 Installment Purchase Agreement and the 2013 Bonds are referred to herein as the “Existing Parity Obligations.” See “THE WATER SYSTEM - Outstanding Indebtedness of the District” herein.

The Bonds are limited obligations of the District payable solely from Taxes and Net Revenues of the Water System, and neither the full faith and credit nor the taxing power of the District, the State of California or any of its political subdivisions is pledged for the payment of the Bonds.

Legal Matters

Certain legal matters relating to the issuance of the Bonds are subject to the approving opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel. Certain legal matters will be passed on for the District by Artiano, Shinoff & Holtz, LLP, as General Counsel for the District, and by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, as Disclosure Counsel to the District.

Professional Services

MUFG Union Bank, N.A., Los Angeles, California, serves as Trustee under the Indenture. The Trustee also serves as trustee for the Existing Parity Obligations.

Harrell & Company Advisors, LLC (the “Municipal Advisor”) has advised the District as to the financial structure and certain other financial matters relating to the Bonds.

Fees payable to Bond Counsel, Disclosure Counsel and the Municipal Advisor are contingent upon the sale and delivery of the Bonds.

Offering of the Bonds

Authority for Issuance and Delivery. The Bonds are to be issued pursuant to Section 53570 et seq. of the California Government Code, the Indenture and by Resolution No. ____ of the District adopted on _____, 2016.

Offering and Delivery of the Bonds. The Bonds are offered, when, as and if issued, subject to the approval as to their legality by Bond Counsel. It is anticipated that the Bonds, in book-entry form, will be available for delivery on or about May 4, 2016 through the facilities of The Depository Trust Company.

Summaries Not Definitive

The summaries and references contained herein with respect to the Indenture, the Bonds and other statutes or documents do not purport to be comprehensive or definitive and are qualified by reference to each such document or statute, and references to the Bonds are qualified in their entirety by reference to the form thereof included in the Indenture. Copies of these documents may be obtained after delivery of the Bonds from the District at 2554 Sweetwater Springs Blvd., Spring Valley, California 91978.

THE BONDS

General Provisions

Payment of the Bonds. The Bonds will be issued in the form of fully registered bonds in denominations of \$5,000 or any integral multiple thereof. Interest on the Bonds is payable at the rates per annum set forth on the inside front cover page hereof, on September 1, 2016 and semiannually on March 1 and September 1 of each year to and including the date of maturity (each, an “Interest Payment Date”). Interest on the Bonds will be computed on the basis of a year consisting of 360 days and twelve 30-day months. Principal with respect to the Bonds is payable on September 1 in each of the years and in the amounts set forth on the inside front cover page hereof.

The Bonds shall bear interest from the Interest Payment Date next preceding the date of authentication thereof unless: (a) a Bond is authenticated after the 15th day of the calendar month prior to an Interest Payment Date (each, a “Record Date”) and on or before the following Interest Payment Date, in which event it shall bear interest from such Interest Payment Date; or (b) a Bond is authenticated on or before August 15, 2016, in which event it shall bear interest from the date of initial delivery; provided, however, that if, as of the date of authentication of any Bond, interest thereon is in default, such Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

Interest on the Bonds shall be payable on each Interest Payment Date to the person whose name appears on the Registration Books as the Owner thereof as of the Record Date immediately preceding each such Interest Payment Date, such interest to be paid by check of the Trustee sent by first class mail on the applicable Interest Payment Date to the Owner at the address of such Owner as it appears on the Registration Books (except that in the case of an Owner of one million dollars (\$1,000,000) or more in principal amount, such payment may, at such Owner’s option, be made by wire transfer of immediately available funds to an account in the United States in accordance with written instructions provided to the Trustee by such Owner prior to the Record Date. Principal of any Bond shall be paid by check of the Trustee upon presentation and surrender thereof at maturity, at the Office of the Trustee. Both the principal of and interest on the Bonds shall be payable in lawful money of the United States of America.

Book-Entry-Only System. The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. Interest and principal on the Bonds will be payable when due by wire transfer of the Trustee to DTC which will in turn remit such interest and principal to DTC Participants (as defined herein), which are obligated in turn to remit such interest and principal to Beneficial Owners (as defined herein) of the Bonds (see “APPENDIX F - THE BOOK-ENTRY SYSTEM” herein). As long as DTC is the registered owner of the Bonds and DTC’s book-entry method is used for the Bonds, the Trustee will send any notices to Bond Owners only to DTC.

Discontinuance of Book-Entry-Only System. DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the District or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Bonds are required to be printed and delivered as described in the Indenture. The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, the Bonds will be printed and delivered as described in the Indenture.

Transfer or Exchange of Bonds. Any Bond may, in accordance with its terms, be transferred or exchanged, pursuant to the provisions of the Indenture, upon surrender of such Bond for cancellation at the principal corporate trust office of the Trustee. Whenever any Bond or Bonds shall be surrendered for transfer or exchange, the Trustee shall execute and deliver a new Bond or Bonds for an aggregate principal amount of Bonds of authorized denominations of the same maturity. The Trustee may require the payment by the Bond Owner requesting such transfer or exchange of any tax or other governmental charge required to be paid with respect to such transfer or exchange.

Redemption

Optional Redemption. The Bonds maturing on or before September 1, 2026, are not subject to optional redemption prior to their respective stated maturities. The Bonds maturing on or after September 1, 2027 shall be subject to optional redemption, in whole or in part, on any date on or after September 1, 2026, upon the exercise by the District of its right to cause the redemption of Bonds in accordance with the Indenture, from any source of available funds, at a redemption price equal to the principal amount of the Bonds to be redeemed, plus accrued interest thereon to the date of redemption.

Mandatory Sinking Fund Redemption. The Bonds maturing September 1, ____ (the “Term Bonds”) are also subject to mandatory sinking fund redemption in part, on September 1 in each of the years as set forth in the following table, at a redemption price equal to the principal amount thereof to be redeemed together with accrued interest thereon to the redemption date, without premium. If some but not all of the Term Bonds have been redeemed pursuant to the optional redemption provisions of the Indenture, the principal amount of all subsequent mandatory sinking fund payments with respect to such Term Bonds will be reduced by the aggregate principal amount of such Term Bonds so optionally redeemed, such reduction to be allocated among such subsequent mandatory sinking fund payments in integral multiples of \$5,000 on a basis designated by the District in a written Certificate of the District filed with the Trustee.

SINKING FUND PAYMENT SCHEDULE FOR TERM BONDS MATURING SEPTEMBER 1, ____

<u>Year</u> <u>(September 1)</u>	<u>Principal</u> <u>Amount</u>
---	---

Notice of Redemption; Recission. When redemption is authorized or required, the Trustee on behalf and at the expense of the District shall mail (by first class mail) notice of any redemption to the respective Owners of any Bonds designated for redemption at their respective addresses appearing on the Registration Books at least 30 but not more than 60 days prior to the date fixed for redemption. Such notice shall state the date of the notice, the redemption date, the redemption place and the redemption price and shall designate the CUSIP numbers, if any, the Bond numbers and the maturity or maturities of the Bonds to be redeemed (except in the event of redemption of all of the Bonds of such maturity or maturities in whole), and shall require that such Bonds be then surrendered at the Office of the Trustee for redemption at the redemption price, giving notice also that further interest on such Bonds will not accrue from and after the date fixed for redemption. Neither the failure to receive any notice so mailed, nor any

defect in such notice, shall affect the validity of the proceedings for the redemption of the Bonds or the cessation of accrual of interest thereon from and after the date fixed for redemption.

With respect to any notice of any optional redemption of Bonds, unless at the time such notice is given the Bonds to be redeemed shall be deemed to have been paid within the meaning of the Indenture, such notice shall state that such redemption is conditional upon receipt by the Trustee, on or prior to the date fixed for such redemption, of moneys that, together with other available amounts held by the Trustee, are sufficient to pay the redemption price of, and accrued interest on, the Bonds to be redeemed, and that if such moneys shall not have been so received said notice shall be of no force and effect and the Authority shall not be required to redeem such Bonds. In the event a notice of redemption of Bonds contains such a condition and such moneys are not so received, the redemption of Bonds as described in the conditional notice of redemption shall not be made and the Trustee shall, within a reasonable time after the date on which such redemption was to occur, give notice to the persons and in the manner in which the notice of redemption was given, that such moneys were not so received and that there shall be no redemption of Bonds pursuant to such notice of redemption.

Selection of Bonds for Redemption. Whenever provision is made for the optional redemption of less than all of the Bonds, the Trustee shall select the Bonds to be redeemed from all Bonds not previously called for redemption among maturities of Bonds as directed in a Written Request of the District, and by lot among Bonds with the same maturity in any manner which the Trustee in its sole discretion shall deem appropriate. Whenever provision is made for the sinking fund redemption of less than all of the Bonds, the Trustee shall select the Bonds to be redeemed from all Bonds not previously called for redemption by lot among Bonds with the same maturity in any manner which the Trustee in its sole discretion shall deem appropriate. For purposes of such selection, all Bonds shall be deemed to be comprised of separate \$5,000 denominations and such separate denominations shall be treated as separate Bonds which may be separately redeemed.

Partial Redemption of Bonds. Upon surrender of any Bonds redeemed in part only, the District shall execute and the Trustee shall authenticate and deliver to the Owner thereof, at the expense of the District, a new Bond or Bonds with the same maturity in an aggregate principal amount equal to the unredeemed portion of the Bonds surrendered.

Effect of Notice of Redemption. Notice of redemption having been duly given, and moneys for the redemption price, and the interest to the applicable date fixed for redemption, having been set aside with the Trustee, the Bonds shall become due and payable on said date, and, upon presentation and surrender thereof at the Office of the Trustee, said Bonds shall be paid at the redemption price thereof, together with interest accrued and unpaid to said date. If, on said date fixed for redemption, moneys for the redemption price of all the Bonds to be redeemed, together with interest to said date, shall be held by the Trustee so as to be available therefor on such date, and, if notice of redemption thereof shall have been duly given and not canceled, then, from and after said date, interest on said Bonds shall cease to accrue and become payable. All moneys held by or on behalf of the Trustee for the redemption of Bonds shall be held in trust for the account of the Owners of the Bonds so to be redeemed without liability to such Owners for interest thereon.

Scheduled Debt Service

The following presents the scheduled annual debt service on the Bonds, assuming no optional redemption prior to maturity.

Fiscal Year			
Ending			
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017			
2018			
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
Total			

Annual debt service for the Bonds, along with the expected annual Installment Payments and debt service for the outstanding Existing Parity Obligations, are set forth in the following table.

**Otay Water District
Aggregate Parity Obligations**

Fiscal Year Ending June 30	1996 Installment Payments ⁽¹⁾	2010 Installment Payments	2013 Bonds Debt Service	2016 Bonds Debt Service	Total Parity Obligations
2017	\$ 893,920	\$ 3,714,956	\$ 856,500		
2018	872,800	3,718,156	855,600		
2019	949,040	3,714,856	853,700		
2020	924,400	3,709,981	855,700		
2021	899,760	3,707,981	856,500		
2022	972,480	3,708,356	856,100		
2023	944,320	3,705,981	854,500		
2024	1,013,520	3,705,731	851,700		
2025	981,840	3,700,862	-		
2026	1,047,520	3,693,345	-		
2027	1,109,680	3,688,589	-		
2028	-	3,688,093	-		
2029	-	3,681,540	-		
2030	-	3,678,609	-		
2031	-	3,673,823	-		
2032	-	3,669,728	-		
2033	-	3,665,558	-		
2034	-	3,662,508	-		
2035	-	3,655,086	-		
2036	-	3,652,634	-		
2037	-	3,644,495	-		
2038	-	3,640,010	-		
2039	-	3,633,357	-		
2040	-	3,628,716	-		
2041	-	<u>3,620,262</u>	-		
Total	\$10,609,280	\$91,963,213	\$6,840,300		

⁽¹⁾ Variable interest rate. Calculated using 3.86% 25 Year Revenue Bonds Index as of March 10, 2016 as the assumed variable rate interest. Actual amounts will vary.

THE FINANCING PLAN

The Refunding Program

The District has previously caused to be executed and delivered its \$42,000,000 Revenue Certificates of Participation (2007 Water System Project), Series 2007 (the “Prior Certificates”), pursuant to a trust agreement (the “Prior Agreement”) and an installment purchase agreement between the District and the Otay Service Corporation (the “Corporation”) (the “Prior Installment Purchase Agreement”). The District pledged the Taxes and Net Revenues of the Water System to repay amounts due under the Prior Installment Purchase Agreement and evidenced by the Prior Certificates.

On the Closing Date, a portion of the proceeds of the Bonds, together with certain other funds, will be deposited in trust with MUFG Union Bank, N.A., as prior trustee and escrow bank (the “Escrow Bank”) pursuant to an escrow agreement, dated as of May 1, 2016, between the District and the Escrow Bank (the “Escrow Agreement”). The deposit will be in an amount sufficient to prepay principal and interest evidenced by Prior Certificates through and including September 1, 2017 and to pay the prepayment price of the Prior Certificates upon early call and prepayment of the Prior Certificates on September 1, 2017 at the principal amount thereof, without premium.

Amounts so deposited under Escrow Agreement will be pledged to the principal, interest and prepayment price of the Prior Certificates and the sufficiency of the amounts deposited in the under the Escrow Agreement for such purpose will be verified by the Verification Agent as described below. Assuming the accuracy of such computations, the lien of the Prior Certificates and the Prior Installment Sale Agreement will be discharged, terminated and of no further force and effect upon the deposit with the Escrow Bank of the amounts required pursuant to the Escrow Agreement.

Amounts held by the Escrow Bank under the Escrow Agreement are pledged solely to the payment of the Prior Certificates and are not available for payments on the Bonds.

Verifications of Mathematical Computations. Grant Thornton LLP (the “Verification Agent”) will verify from the information provided to them the mathematical accuracy as of the date of issuance of the Bonds of (1) the computations contained in the provided schedules to determine that the cash and investments, together with investment earnings thereon, listed in the schedules prepared by the Municipal Advisor, to be held in escrow, will be sufficient to pay, when due, the principal, interest and prepayment price of the Prior Certificates, and (2) the computation of yield on the Bonds contained in the provided schedules used by Bond Counsel in its determination that the interest with respect to the Bonds is exempt from federal taxation.

Estimated Sources and Uses of Funds

Under the provisions of the Indenture, the Trustee will receive the proceeds from the sale of the Bonds and will apply them as follows:

Sources:

Principal Amount of Bonds

Original Issue Premium

Total Sources

Uses:

Escrow Fund

Underwriter's Discount

Costs of Issuance Fund ⁽¹⁾

Total Uses

⁽¹⁾ Expenses include fees of Bond Counsel, the Municipal Advisor, Disclosure Counsel, the Verification Agent, the Trustee and Escrow Bank, rating fees, costs of printing the Official Statement, and other costs of delivery of the Bonds.

**OTAY WATER DISTRICT SERVICE AREA AND FACILITIES
INSERT NEW PDF MAP**

OTAY WATER DISTRICT

The District was formed in January 1956 pursuant to Section 71000 et seq., of the California Water Code, and joined the San Diego County Water Authority (which is a member of the Metropolitan Water District of Southern California) in September 1956 to acquire the right to purchase and distribute imported water throughout its service area. The San Diego County Water Authority (“CWA” or the “Water Authority”) is an agency responsible for the wholesale supply of water to its 24 public agency members in San Diego County.

The District’s boundaries currently encompass an area of approximately 125 square miles and is generally located within the south central portion of San Diego County. The District serves a wide spectrum of communities, including southern El Cajon, La Mesa, Rancho San Diego, Jamul, Spring Valley, Bonita, eastern Chula Vista, and a small portion of the City of San Diego on Otay Mesa (the “Service Area”). The southern boundary of the District is the international border with Mexico. The District is the sole provider of water in the Service Area. The District provides water service to about 60% of its projected ultimate population.. Ultimately, the District is projected to serve 285,000 people by 2035, creating an average daily demand of 36.4 million gallons per day (“mgd”).

The District currently meets its potable demands with imported treated water from the Water Authority. The potable water is delivered via the Second San Diego County Aqueduct, (“Pipeline No. 4”) which is owned and operated by the Water Authority. The water is treated at the Water Authority’s Twin Oaks Water Treatment Plant (“WTP”), the Metropolitan Skinner WTP located in Riverside County, and a private developer’s (Poseidon) desalinated seawater WTP in Carlsbad. Pipeline No. 4 is the District’s primary supply system. The Water Authority has multiple flow control facilities or connections to Pipeline No. 4 that feed into the District’s water system.

In addition, the District entered into another agreement with the Water Authority, known as the East County Regional Treated Water Improvement Program (“ECRTWIP Agreement”). The ECRTWIP Agreement provides for transmission of raw water to the Helix Water District’s R. M. Levy Water Treatment Plant (“Levy WTP”) for treatment and delivery to the Northern Service area of the District. The ECRTWIP Agreement allows access to the region’s raw water supply system and also provides treatment at the local facility. The District is required to take a minimum of 10,000 acre-feet per year of treated water (average 8.9 mgd) from the Levy WTP.

Through a 1999 agreement with the City of San Diego, the District may obtain up to 10 mgd of supply from the City’s Otay Water Treatment Plant (“Otay WTP”). The Otay WTP was originally constructed in 1940, and has a current rated capacity of 34.4 mgd. Under the terms of the agreement, the City of San Diego’s obligation to supply treated water to the District is contingent upon its surplus treatment capacity, beyond what the City of San Diego needs for its own area system.

The District owns and operates a recycled water distribution network. Recycled water is used to irrigate golf courses, landscaping at schools, public parks, public right of ways, and various other approved uses in eastern Chula Vista. The District has two sources of recycled water supply: Recycled water produced locally at the District’s Ralph W. Chapman Water Recycling Facility (“RWCWRF”) and a recycled water supply produced at the City of San Diego’s South Bay Water Reclamation Plant (“SBWRP”). The RWCWRF is located near the intersection of Campo Road/Highway 94 and Singer Lane within the Middle Sweetwater River basin. The RWCWRF was originally constructed in 1979 and upgraded in 2012. It has a rated design capacity to produce 1.2 mgd of recycled water. The SBWRP has a rated capacity of 15 mgd and is located at Monument and Dairy Mart Roads near the international border, adjacent to the Tijuana River. The agreement between the District and the City of San Diego for purchase of recycled water from the SBWRP was finalized on October 20, 2003. In accordance with the agreement, the City of San Diego will provide an annual amount of at least 6 mgd of recycled water to the District. The term of the agreement is 20 years from January 1, 2007. Using these resources to meet

recycled water demands on the Water System has resulted in the District being able to allocate approximately 4,400 acre-feet per year of potable water to other uses.

The District also owns and operates a wastewater collection system, providing public sewer service to approximately 4,679 customer accounts within the Jamacha drainage basin, which is located in the northern section of the District. Revenues from the District's wastewater collection system are not pledged to the payment of the Bonds.

THE WATER SYSTEM

The following information concerning the Water System was obtained from District officials except where otherwise indicated. The audited financial statements of the District for the Fiscal Year ended June 30, 2015 are attached hereto as "APPENDIX B" and should be read in their entirety.

Existing Facilities

Potable Water Facilities - The principal facilities of the existing potable water system consist of five water supply connections with CWA, six water supply connections with the City of San Diego, seven connections with Helix Water District and two connections with Sweetwater Authority, 21 pump stations, over 727 miles of pipelines, and 40 storage reservoirs.

The District currently meets all of its potable demands with imported treated water from CWA. Fifty-seven percent of this water is in turn purchased from the region's primary water importer, the Metropolitan Water District of Southern California ("MWD"). The District also has entered into an agreement with the CWA to have the neighboring Helix Water District treat imported water on behalf of the District at the Levy WTP. See "OTAY WATER DISTRICT." This action brought regional water treatment closer to customers, which helps reduce dependence on water treatment facilities located outside of San Diego County.

Recycled Water Facilities - The principal facilities of the existing recycled water system consist of 2 recycled water supply sources, 3 pump stations, 104 miles of pipelines, and 4 storage reservoirs.

The District currently produces recycled water at the RWCWRF, which is owned and operated by the District. Recycled water from the RWCWRF and purchased recycled water from the SBWRP are delivered into storage reservoirs that provide recycled water service to recycled water customers. See "OTAY WATER DISTRICT." Only when treatment facilities are unavailable due to maintenance issues is potable water used to supplement the recycled water system.

The District is divided into two distinct systems; the North District and South District, and five geographic areas. These five areas contain five potable water systems and a recycled water distribution system with two sources of supply. The systems are called Hillsdale, Regulatory, La Presa, Central Area, and Otay Mesa. The Hillsdale, Regulatory, and La Presa systems are collectively referred to as the North District, while the Central Area and Otay Mesa systems are collectively referred to as the South District. Recycled water service is currently limited to the South District. There are multiple pressure zones within each system, except Otay Mesa.

North District. The Hillsdale system serves the northernmost part of the North District. The Regulatory system serves the sparsely developed eastern portion of the North District. The La Presa system serves the western part of the North District near Sweetwater reservoir and is the southernmost system of the North District. Two 10 million gallon reservoirs are located within the La Presa system and provide storage for the treated water delivered through a 36 inch pipeline, which connects to the Helix Water District system. The reservoirs within the La Presa system provide operational and emergency storage for the entire North District.

South District. The Central Area system is roughly bounded by Interstate 805 on the west, Otay River on the south, the Lower Otay Reservoir on the east, and the Regulatory System on the north. The Otay Mesa system includes the extreme south portion of the District Service Area and is generally located between the Otay River on the north and the international border with Mexico on the south. The South District is expected to experience the most growth in the District’s Service Area.

Water Storage

The District currently operates 40 potable reservoirs and 4 recycled reservoirs as shown below with a total capacity of 261.3 million gallons. The District estimates that the reservoirs are 50% full on a typical day.

<u>System</u>	<u>Reservoirs</u>	<u>Capacity (million gallons)</u>
Hillsdale	6	13.9
Regulatory	14	58.8
La Presa	7	12.7
Central Area	11	85.5
Otay Mesa	<u>2</u>	<u>47.7</u>
Total Potable	40	218.6
Recycled	<u>4</u>	<u>43.7</u>
Total Storage	44	262.3

Water Supply

Service Area Water Supply - Potable. The District does not have a local source of surface water. The District purchases all of its potable water from the CWA either directly or indirectly from Helix Water District. Under a contractual arrangement with the CWA, the District receives potable water from the Helix Water District’s Levy WTP, and also has an emergency agreement with the City of San Diego to receive treated water in the case of a shutdown of CWA treated water Pipeline 4.

Service Area Water Supply - Recycled. The District produces approximately 1.2 mgd of recycled water at the RWCWRF. The District has contracted with the City of San Diego to purchase up to 6 mgd of recycled water produced by the SBWRP. Construction of the required pump station, reservoir, and the 6-mile delivery system allowing the District to connect to the City of San Diego’s recycled water pipeline was completed in 2007.

CWA Water Supply. Historically, the principal source of supply for the CWA’s service area has been water purchased from MWD for sale to the CWA member agencies. For the Fiscal Year ended June 30, 2015, the CWA supplied the District 30,299 acre-feet of water, approximately 5.5% of total CWA water supplies.

As an alternative to purchasing all of its imported water from MWD, CWA has begun to diversify its purchases through supply transfers and dry-year transfers. Since 2003, CWA has been receiving a portion of its imported water pursuant to the terms of the Quantification Settlement Agreement (“QSA”) among the State of California acting by and through the Department of Fish and Game, the Coachella Valley Water District (“CVWD”), the Imperial Irrigation District (“IID”) and CWA, executed on October 10, 2003, the Water Transfer Agreement (defined below) and other QSA related agreements. Water that CWA receives from IID is conveyed through the Colorado River Aqueduct pursuant to an exchange agreement with MWD. CWA began receiving transfer water from IID in December 2003. Starting with the initial delivery of 10,000 acre-feet, the amount of water to be delivered is increasing according to an agreed-upon schedule until the maximum transfer yield of 200,000 acre-feet per year is achieved in 2021. In

addition, CWA's portfolio includes imported supplies from water conserved as a result of the lining of the All-American Canal and the Coachella Canal. CWA began receiving water from the Coachella Canal Lining Project in 2007 and from the All-American Canal Lining Project in 2009. In 2015, CWA received a total of approximately 80,000 acre-feet from the Coachella Canal Lining Project and the All-American Canal Lining Project transfers. In 2015, MWD purchases represented approximately 56.9% of total CWA water supplies. By 2020, MWD purchases are expected to represent about 25% of total CWA supplies. CWA's other sources of supply include the IID transfer of 100,000 acre-feet in 2015, the canal lining transfers, surface water, groundwater and recycled water.

Litigation related to the QSA is described in "APPENDIX G - INFORMATION CONCERNING METROPOLITAN WATER DISTRICT'S WATER SUPPLY - QSA Related Litigation."

The CWA continues to pursue supply diversification efforts for itself and the region, including long-term planning, recycling of local surface water, groundwater, recycled water, local seawater desalination and conservation efforts. A significant milestone in local supply development was reached at the end of 2012, when the CWA board of directors approved a 30-year water purchase agreement ("Water Purchase Agreement") with Poseidon Resources (Channelside) LP for the purchase of 48,000 to 56,000 acre-feet of desalinated seawater from the Carlsbad Desalination Project (the "Carlsbad Project"). The Carlsbad Project came online in December 2015. This project is expected to meet 7 - 10% of the region's water demand and represents a significant advance in CWA's long-term strategy to diversify and improve the reliability of the region's water supply portfolio.

CWA made a number of improvements to its aqueduct system and a water treatment plant to integrate desalinated water into the CWA aqueduct system, which cost CWA \$80 million. In addition, a substantial portion of the cost of financing the Carlsbad Project was made by CWA under various agreements, including the Water Purchase Agreement. CWA incorporated the payments required under these agreements into its charges for water to member agencies in future years. CWA estimates that the financial impact of the Carlsbad Project will increase the supply cost by \$34 million and transportation cost by \$5.1 million per year. These amounts were incorporated into the CWA calendar year 2016 rate and into the District's budget. Under its rate structure, the District intends to pass any increase in CWA rates directly along to District customers.

Water storage facilities are also critical to assuring consistent water availability notwithstanding fluctuation in available supply. CWA has entered into agreements to expand available storage capacity. In 2010, the CWA issued over \$600 million in water bonds to finance its Capital Improvement Program. One of the purposes of the Capital Improvement Program was to interconnect a number of member agency storage facilities. Another purpose was to enhance the CWA's own storage capacity. In June 2014, after five years of construction, the largest water storage project in San Diego County history was completed. The San Vicente Dam Raise added 152,000 acre-feet of water storage capacity to the reservoir, enough to serve more than 300,000 homes for one year.

CWA faces various challenges in the continued supply of water to the District and other member agencies. A description of these challenges as well as a variety of other operating information with respect to the CWA is included in certain disclosure documents prepared by CWA. CWA has entered into certain continuing disclosure agreements pursuant to which CWA is contractually obligated, for the benefit of owners of certain of its outstanding obligations, to file certain annual reports, notices of certain material events as defined under Rule 15c2-12 of the Securities Exchange Act of 1934 ("Rule 15c2-12") and annual audited financial statements (the "CWA Information") with the Municipal Securities Rulemaking Board which are available online at www.emma.msrb.org. None of such information is incorporated by reference into this Official Statement.

CWA HAS NOT REVIEWED THIS OFFICIAL STATEMENT AND HAS MADE NO REPRESENTATIONS OR WARRANTIES WITH RESPECT TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION CONTAINED OR INCORPORATED HEREIN, INCLUDING INFORMATION WITH

REGARD TO CWA. CWA IS NOT CONTRACTUALLY OBLIGATED, AND HAS NOT UNDERTAKEN, TO UPDATE SUCH CWA INFORMATION, FOR THE BENEFIT OF THE DISTRICT OR THE OWNERS OF THE BONDS UNDER RULE 15c2-12.

MWD Water Supply. CWA currently purchases all of its imported water from MWD, IID and the Carlsbad Project. CWA is MWD's largest water purchaser of the member agencies, purchasing approximately 30.4% of MWD's supplies in Fiscal Year 2014/15. MWD obtains its water supply from two primary sources: the Colorado River, via MWD's Colorado River Aqueduct, and the State of California Department of Water Resources' State Water Project ("SWP"), via the Edmund G. Brown California Aqueduct.

MWD faces various challenges in the continued supply of imported water to CWA and other member agencies. A description of these challenges as well as a variety of other operating information with respect to MWD is included in certain disclosure documents prepared by MWD. MWD has entered into certain continuing disclosure agreements pursuant to which MWD is contractually obligated, for the benefit of owners of certain of its outstanding obligations, to file certain annual reports, notices of certain material events as defined under Rule 15c2-12 and annual audited financial statements (the "MWD Information") with the Municipal Securities Rulemaking Board which are available online at www.emma.msrb.org. None of such information is incorporated by reference into this Official Statement.

MWD HAS NOT REVIEWED THIS OFFICIAL STATEMENT AND HAS MADE NO REPRESENTATIONS OR WARRANTIES WITH RESPECT TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION CONTAINED OR INCORPORATED HEREIN, INCLUDING INFORMATION WITH REGARD TO MWD. MWD IS NOT CONTRACTUALLY OBLIGATED, AND HAS NOT UNDERTAKEN, TO UPDATE SUCH MWD INFORMATION, FOR THE BENEFIT OF THE DISTRICT OR THE OWNERS OF THE BONDS UNDER RULE 15c2-12.

Historic and Projected Water Supply. During the early 2000's, the State of California had experienced drought conditions and CWA implemented a base allocation of water to the District. During that period, the District's base allocation of potable water was 43,162 acre-feet. From 2009 to early 2011, CWA implemented an 8% reduction in that base allocation to its customers, resulting in an allocation to the District of 39,680.6 acre-feet. On April 28, 2011, CWA announced the end of mandatory water use restrictions and that there will no longer be a base water allocation for member agencies.

On January 17, 2014, the California Governor declared a Statewide drought state of emergency through Proclamation 1-17-2014 (the "Proclamation") with immediate effect. The Proclamation includes the following orders, among others: (a) local urban water suppliers, including the District, are encouraged to implement their local water shortage contingency plans; the District's plan is discussed under the caption "- District Response to Drought;" (b) local urban water suppliers, including the District, are encouraged to update their urban water management plans to prepare for extended drought conditions; (c) The State Department of Water Resources ("DWR") and the State Water Resources Control Board (the "SWRCB") are directed to expedite the processing of water transfers; (d) the SWRCB is directed to put water rights holders on notice that they may be required to cease or reduce water diversions in the future; (e) the SWRCB is directed to consider modifying requirements for reservoir releases or diversion limitations; and (f) DWR is directed to take necessary actions to protect water quality and supply in the Sacramento-San Joaquin River Delta/San Francisco Bay Estuary (the "Bay-Delta"), including the installation of temporary barriers or temporary water supply connections, while minimizing impacts to aquatic species. In addition, on July 15, 2014, the SWRCB adopted emergency measures requiring water suppliers to implement mandatory Statewide water conservation actions.

On March 17, 2015, the SWRCB adopted additional emergency regulations limiting outdoor irrigation to two days per week, extending certain measures set forth in the July 15, 2014 action for an additional 270 days, prohibiting outdoor irrigation for 48 hours following rain and prohibiting restaurants from serving water to customers unless requested. The District is undertaking efforts to comply with the new

regulations through its conservation ordinances, as discussed under the caption “- District Response to Drought.” MWD has also invoked its Water Supply Allocation Plan (the “WSAP”) in response to the March 17, 2015 regulations. The WSAP provides for the equitable distribution of available water supplies in case of extreme water shortage within MWD’s service area. On April 14, 2015, MWD approved implementation of WSAP Level 3 (Water Supply Allocation) effective July 1, 2015, which among other things imposes a surcharge of between \$1,480 and \$2,960 per acre foot of water usage above MWD members’ water allocation. To date, no surcharges have been imposed on the District; any such surcharges would be passed through to customers.

On April 1, 2015, the California Governor issued an Executive Order extending the measures set forth in the Proclamation and adopting the following additional orders, among others: (i) the SWRCB is directed to impose restrictions to reduce potable urban water usage, including usage by commercial, industrial and institutional properties and golf courses, by 25% from 2013 amounts through February 28, 2016; portions of a water supplier’s service area with higher per capita use must achieve proportionally greater reductions than areas with lower per capita use; (ii) DWR is directed to lead a Statewide initiative to replace 50 million square feet of lawns with drought tolerant landscaping; (iii) the California Energy Commission is directed to implement a rebate program for replacement of inefficient appliances; (iv) urban water suppliers are required to provide monthly water usage, conservation and enforcement information; (v) service providers are required to monitor groundwater basin levels in accordance with California Water Code § 10933; (vi) permitting agencies are required to prioritize approval of water infrastructure and supply projects; and (vii) DWR is required to plan salinity barriers in the Bay-Delta.

On May 6, 2015, the SWRCB adopted regulations in response to the Governor’s executive order that required the District to effect a 20% reduction from 2013 water usage. On November 13, 2015, the Governor issued Executive Order B-36-15, which calls for an extension of urban water use restrictions until October 31, 2016 should drought conditions persist through April 2016.

On February 2, 2016, the SWRCB extended its previous emergency regulations through October 2016 while making available credits and adjustments of up to 8% in urban water suppliers’ conservation mandates based upon climate, water-efficient growth and investments in drought-resilient supply sources. The District was eligible for the 8% adjustments and the District’s required to effect a 12% reduction from 2013 usage instead of 20%. The SWRCB will review the February 2, 2016 regulations in May 2016 to determine whether to give urban water suppliers more flexibility based on updated water supply information through April 2016.

District Response to Drought

Discuss Drought Plan Implementation and what level of usage is projected for Table No. 12.

At its peak in Fiscal Year 2006/07, the District purchased 41,909 acre-feet of potable water from CWA. Of this amount, 3,073 acre-feet of potable water was used to provide water to the customers of the mandated District’s recycled water system. However, the District has developed additional sources of recycled water and no longer needs to purchase potable water to supplement the recycled system. This, along with economic factors, conservation efforts, additional rainfall and cooler temperatures has resulted in a reduction of purchased water from CWA from a high of 41,909 acre-feet in Fiscal Year 2006/07 to a low of 29,861 acre-feet in Fiscal Year 2010/11, both well below the base allocation of 43,162 acre-feet. In Fiscal Year 2016, purchases of water from the CWA have been budgeted for 28,052 acre-feet in Fiscal Year 2015/16 to reflect the Governor’s mandated cutback and are projected to be 22,496 acre-feet in Fiscal Year 2015/16 as District customers are expected to achieve higher conservation levels than originally budgeted.

Set forth below is a summary of the District’s sources of water supply for the last eight fiscal years.

HISTORIC WATER SUPPLY IN ACRE-FEET PER YEAR

Fiscal Year Ended June 30	Produced Recycled Water	Purchased Recycled Water	Purchased Potable Water	Total
2005 ⁽¹⁾	1,150	0	37,678	38,828
2006	1,234	0	40,946	42,180
2007 ⁽²⁾	1,263	653	41,909	43,825
2008	1,235	3,595	38,045	42,875
2009	844 ⁽³⁾	3,658	34,971	39,473
2010	1,033	2,870	31,175	35,078
2011	1,058	2,969	29,861	33,888
2012	655 ⁽⁴⁾	3,171	30,543	34,369
2013	1,117	3,250	31,884	36,251
2014	1,155	3,881	33,409	38,385
2015	1,017	3,326	30,299	34,642

- ⁽¹⁾ Rainfall in 2005 was significantly above average, resulting in decreased purchases of potable water and production of recycled water.
- ⁽²⁾ After the District began purchasing recycled water from the City of San Diego in May of 2007, it was no longer necessary to purchase potable water for the recycled system to supplement the amount of produced recycled water. See “Water Supply - Service Area Water Supply - Recycled” above.
- ⁽³⁾ The RWCWRF was not in operation for a total of 74 days in Fiscal Year 2008/09 for planned maintenance, consistent with regulatory and operating permit requirements.
- ⁽⁴⁾ The RWCWRF was not in operation for a total of 139 days in Fiscal Year 2011/12 for planned maintenance, consistent with regulatory and operating permit requirements.

Source: Otay Water District.

The District currently expects that demand for potable water may reach as high as 56,600 acre-feet per year at buildout, potentially by the year 2035. The District currently obtains 100 percent of its potable water supply as imported water from CWA. CWA, in turn, obtains imported water from MWD and IID. The reliability of the District’s potable supply is currently dependent on these wholesale agencies. The District is committed to investing in alternative water sources, such as groundwater or desalination that would reduce its dependence on imported water.

Currently, the District is pursuing the ability to purchase potable desalinated water from the Mexican State of Baja California (“Baja California”), which is currently in the process of awarding a contract for a public/private development of desalination facility to be constructed. It is anticipated that the Baja California will award a contract for the desalination plant late this year. The plant is likely to take three to four years to complete, and is estimated to produce up 100 mgd of desalinated water annually. The project will be built in two phases. The first phase will be construction of the desalination plant and a pipeline that conveys the water to a distribution point to be operated by CESPT Tijuana Public Utility North East of Rosarito Beach, for the use in Tijuana, Mexico and other communities in northern Baja California. The second phase of the project is construction of the pipeline from the distribution point to convey this water supply to the District’s boundary coincident with the United States and Mexican international border. In order to take delivery of such water supply, the District needs to construct a conveyance system, within the District, from that delivery point to the District’s distribution system. The construction includes 3.2 miles of pipeline, a pump station and a water treatment plant. The District

expects that the conveyance system would take approximately 3 years to construct and the District would commence the construction if a purchase contract is entered into for water produced at the desalination plant.

The District is anticipating a contract with the Baja California through the auspices of the International Boundary and Water Commission under a 1944 treaty with Mexico. The District currently expects that the water can be supplied at a price at or comparable to the cost of SDCWA treated water.

Any water purchases from the desalination plant would be payable as an Operation and Maintenance Cost of the District, similar to the current water purchases from CWA and other existing sources. The District projects no appreciable difference in the cost of such water compared to current projected costs of the water purchased from CWA.

If the District is able to negotiate a contract that meets the financial goals of the District and the desalination plant is completed, the District would expect to reduce the amount of water it purchases from CWA. However, should water from the desalination plant be unavailable, as a member of CWA, the District would continue to be entitled to purchase water from CWA. The District believes that such a transition back to increased CWA water purchases could require a temporary rate increase but would not have a material adverse effect on the District’s financial condition.

There can be no assurance that a contract with Baja California will ever be entered into, nor can there be any assurance that the District will construct a conveyance system to take delivery of any water delivered under such a contract, or as to the ultimate timing or cost of such matters. The projections set forth herein do not reflect any District purchases from the Baja California or the costs of construction of any conveyance facilities in connection therewith.

Set forth below is a summary of the District’s projection of water sources for the current and five succeeding Fiscal Years.

PROJECTED WATER SUPPLY IN ACRE-FEET PER YEAR

Fiscal Year Ending June 30	Produced Recycled Water ⁽¹⁾	Purchased Recycled Water	Purchased Potable Water ⁽²⁾	Total
2016	1,049	2,747	22,496	26,292
2017	1,049	2,775	23,304	27,128
2018	1,049	2,823	24,141	28,013
2019	1,049	2,883	24,425	28,357
2020	1,049	2,962	24,780	28,791
2021	1,049	3,064	25,141	29,254

⁽¹⁾ Maximum capacity for the treatment plant is 1,456 acre-feet, but the District bases its projection of 1,049 acre-feet on normal (efficient) capacity.

⁽²⁾ Includes purchases from CWA, raw water treated to potable level by the City of San Diego and the Helix Water District, and assumes no desalinated water purchases.

Source: Otay Water District Fiscal Year 2016 revised estimates due to mandated cutbacks.

Capital Improvement Program

The District boundaries encompass areas of San Diego County that experienced rapid growth between 2001 and 2007. Moderate growth is expected in future years. The District currently serves a population of approximately 217,000. Ultimately, the District is projected to serve 285,000 people and it estimates

an additional \$318 million investment in capital assets will be required through ultimate buildout, over approximately 35 years.

The District reviews and updates its six-year Capital Improvement Program (the “CIP”) annually based on an analysis of the potable and recycled water demands most recently projected by developers, demographics, and population estimates by the San Diego Association of Governments (“SANDAG”). In addition, the District has commissioned a study on the local economy to further refine its projections. In the latest annual updated report entitled “Economic Outlook Update for the Otay Water District”, prepared by the London Group Realty Advisors (“LGRA”) and dated March 2015 (the “Report”), LGRA projected new residential construction for Fiscal Years 2016 - 2021. The average number of residential units (single-family homes, rental units and condominiums) identified in the Report for the next five years is 1,642 units per year. Growth projections by SANDAG for the Series 12 Planned Land Use Inventory identified the District as having 56.8% of the new industrial projected development in San Diego County and 20.1% of the new residential projected development with land use densities higher than 4 dwelling units per acre.

The Water System capital improvements are categorized by operational area of the District, which includes potable and recycled water operations. The CIP is then further separated into improvement categories - Expansion, Betterment, Replacement and New Supply.

The table below summarizes the current six-year \$96.3 million CIP for the Water System and the categories of work to be completed, updated as part of the 2015/16 budget.

	Fiscal Year Ending June 30						
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>Total</u>
Expansion	\$ 479,100	\$ 555,600	\$ 889,200	\$ 1,171,300	\$ 367,400	\$ 213,400	\$ 3,676,000
Betterment	2,306,900	3,569,900	4,284,300	4,333,700	4,850,600	5,400,600	24,746,000
Replacement	6,439,000	10,468,500	10,609,500	6,830,000	4,528,000	4,392,000	43,267,000
New Supply	<u>140,000</u>	<u>140,000</u>	<u>1,280,000</u>	<u>2,400,000</u>	<u>3,200,000</u>	<u>3,600,000</u>	<u>10,760,000</u>
Total	\$ 9,365,000	\$14,734,000	\$17,063,000	\$14,735,000	\$12,946,000	\$13,606,000	\$82,449,000

Source: Otay Water District.

The District has identified the timing and method of funding the capital improvements over the next six years. The above improvement categories are designed to be funded with operational net cashflow, proceeds of bonds that have been previously issued, transfers between operational areas, other capital related charges, reserves or a combination of these sources, and currently, the District expects to fund these improvements with reserves and/or operating income (\$33.1 million), capacity fees and other fees (\$49.3 million). The District does not expect that additional debt financing will occur during the next six years. In order to implement the CIP, the District anticipates that it will need to increase its rates as described herein (see “Water Charges” herein). However, there is no guarantee that the District will implement such rate increases at the amount and at the time anticipated in its planning documents. See “CONSTITUTIONAL LIMITATIONS ON TAXES AND APPROPRIATIONS - Proposition 218.”

Water Service

Historical Water Use. Table No. 1 shows the amount of water usage, connections and revenue generated from water and recycled water sales in the last five Fiscal Years, with estimated amounts for Fiscal Year 2016.

TABLE NO. 1
CONNECTIONS AND WATER SALES VOLUME AND REVENUE
Fiscal Years 2010/11 through 2015/16

	<u>2010/11</u>	<u>2011/12</u>	<u>2012/13</u>	<u>2013/14</u>	<u>2014/15</u>	<u>Estimated 2015/16⁽⁵⁾</u>
<u>Potable</u>						
Residential - Volume in ccf ⁽¹⁾	7,486,069	7,507,214	7,836,873	8,050,828	7,248,930	5,822,700
Potable - Volume in acre-feet	17,186	17,234	17,991	18,482	16,641	13,367
Residential - Connections	43,903	44,396	44,670	44,826	44,941	45,078
Residential - Sales Revenue ⁽²⁾	\$ 18,743	\$ 20,784	\$ 24,050	\$ 26,984	\$ 24,266	\$ 21,006
All Others - Volume in ccf	4,877,788	5,003,680	5,352,169	5,669,291	5,495,495	3,976,700
Other - Volume in acre-feet	11,198	11,487	12,287	13,015	12,615	9,129
All Others - Connections	4,251	4,269	4,292	4,322	4,367	3,626
All Others - Sales Revenue ⁽²⁾	\$ 13,493	\$ 14,832	\$ 16,796	\$ 19,872	\$ 19,759	\$ 15,915
<u>Recycled -⁽³⁾</u>						
Recycled - Volume in ccf	1,675,591	1,652,833	1,878,950	2,068,330	1,841,956	1,653,700
Recycled - Volume in acre-feet	3,847	3,794	4,313	4,748	4,228	3,796
Recycled - Connections	685	696	704	702	705	706
Recycled - Sales Revenue ⁽²⁾	\$ 6,128	\$ 6,413	\$ 7,809	\$ 9,245	\$ 8,025	\$ 8,179
<u>Total</u>						
Total Volume in ccf	14,039,448	14,163,727	15,067,992	15,788,449	14,586,381	11,453,100
Total Volume in acre-feet	32,231	32,515	34,591	36,245	33,484	26,292
Total Connections	48,839	49,361	49,666	49,850	50,013	49,410
Total Sales Revenue ⁽²⁾	\$ 38,364	\$ 42,029	\$ 48,655	\$ 56,101	\$ 52,050	\$ 45,100
Fixed Charges ⁽²⁾⁽⁴⁾	\$ 19,906	\$ 21,775	\$ 23,503	\$ 25,186	\$ 27,085	\$ 27,500
Total Revenue ⁽²⁾	\$ 58,270	\$ 63,804	\$ 72,158	\$ 81,287	\$ 79,135	\$ 72,600

(1) ccf refers to a measurement of 100 cubic feet (1 cubic foot = 7.48 gallons).

(2) Dollars in thousands.

(3) The District receives a credit of \$185 per acre-foot and \$200 per acre-foot from MWD and CWA, respectively for every acre-foot of recycled water sold.

(4) Includes fixed charges, energy charges and delinquency collections on both potable and recycled water sales.

(5) Includes fixed actual water sales value and revenue from July 1, 2015 to February 29, 2016, forecasted water sales volume and revenue from March 1, 2016 to June 30, 2016, and forecasted connections as of June 30, 2016.

Source: Otay Water District.

Table No. 2 shows the 10 largest water users for Fiscal Year 2014/15.

TABLE NO. 2
TEN LARGEST CUSTOMERS BY WATER SALES REVENUES ⁽¹⁾
Year ended June 30, 2015

<u>Customer</u>	<u>Usage in HCF ⁽²⁾</u>	<u>% of Water System Consumption</u>	<u>Water Sales Revenues</u>	<u>% of Total Water Sales Revenues</u>
City of Chula Vista	703,678	4.8%	\$3,508,939	4.4%
County of San Diego	206,843	1.4%	950,461	1.2%
State of California	217,374	1.5%	833,907	1.1%
Eastlake III Community	168,711	1.2%	781,004	1.0%
Steele Canyon Golf Club LLC	152,365	1.0%	735,908	0.9%
Chula Vista School District	106,415	0.7%	541,036	0.7%
Sweetwater School District	82,617	0.6%	379,353	0.5%
SANDAG	89,974	0.6%	376,714	0.5%
Highlands Golf Company LLC	108,106	0.7%	365,660	0.5%
Eastlake 1 HOA	<u>68,169</u>	<u>0.5%</u>	<u>364,252</u>	<u>0.5%</u>
	1,904,252	13.0%	\$8,837,234	11.3%

⁽¹⁾ Includes both potable and recycled water sales and excludes fixed charges.

⁽²⁾ Hundred cubic feet.

Source: Otay Water District.

Water Charges

Water Service Rates. The District held a public hearing on September 4, 2013 and approved a five-year schedule of rates, which included authorization to raise rates by up to 10% per year during the five year period for costs other than CWA, City of San Diego and MWD rate increases. Authorization was also approved to pass through all CWA, City of San Diego and MWD increases without limitation during the five year period. Actual rate increases and their effective dates are as follows:

<u>Effective Date</u>	<u>% Increase</u>
January 1, 2014	7.5%
January 1, 2015	5.8
January 1, 2016	5.8
March 1, 2016	4.1

The Board of Directors is expected to continue to take action each year through 2018 to set rates in accordance with the September 4, 2013 rate action. However, there can be no assurance that rates will be increased as contemplated herein. All rate increases are subject to the procedural and substantive provisions of Proposition 218. See "CONSTITUTIONAL LIMITATIONS ON TAXES AND APPROPRIATIONS - Proposition 218" below.

Based on its internal rate model updated in November 2015 (which was updated to reflect the 116% increase in recycled water cost from the City of San Diego as well as further reduced water sales projections) and the need to fund the CIP, the District anticipates that it will need to increase its rates by approximately 6.2% in each of the next two years and 3.5% in each of the following three years. These

increases reflect the District’s estimate of the rate impact of the CWA desalination plant capital improvement plan charge.

In this past year the revenues generated by District rate increases have been offset by volume decreases due to the Governor’s mandated cutbacks. See (“Water Supply - Historic and Projected Water Supply” and “- District Response to Drought” herein. Additionally, in November 2015, the City of San Diego passed a 116% rate increase for recycled water purchases. The recycled water cost increase and the greater than anticipated reduction in water sales was not anticipated by the District in preparing its budget for 2015/16, and to ensure financial stability, the District adopted an additional 4.1% rate increase effective March 1, 2016.

The water rate structure uses both fixed and variable charges. All potable water customer classes are charged the two “monthly fixed charges” based on the meter size as shown in Table No. 3. Recycled customers do not receive water from MWD or CWA and therefore do not pay the pass-through charge. The commodity or consumption rates as outlined in Table No. 4 are variable in that they are charges per unit. The District also uses an inclining block rate structure for the commodity rate. As a result, each class of customer has a range of rates and for certain classes - commercial, irrigation, and recycled - and rates are further differentiated based on meter size. Residential customers (also called domestic customers) have a range of rates beginning at \$2.13 and up to \$6.65 based on the number of units used. The average residential customer uses 13 units of water per month. One unit of water is equal to 100 cubic feet of water (one cubic foot of water equals 7.48 gallons). Customers outside the District and tanker trucks are charged two times the commodity rate.

**TABLE NO. 3
MONTHLY FIXED CHARGES
Fiscal Year 2015/16**

<u>Meter Size</u>	<u>Potable and Non-Potable: System Charge</u>	<u>Potable Only: MWD & CWA Pass-through Charge</u>
3/4”	\$ 18.91	\$ 16.84
1”	26.71	31.24
1-1/2”	46.22	70.66
2”	69.61	120.17
3”	132.02	255.60
4”	202.24	409.32
6”	397.31	837.89
8”	631.37	1,353.09
10”	904.44	1,947.62
Fire ≤ 3”	24.69	-
Fire ≥ 4”	33.27	-

Source: Otay Water District.

**TABLE NO. 4
COMMODITY RATES
As of March 1, 2016**

<u>Customer Class: Domestic</u>		<u>Customer Class: Master Meter</u>	
<u>Units</u>	<u>Charge Per Unit</u>	<u>Units</u>	<u>Charge Per Unit</u>
1-5*	\$2.13	1-4	\$3.28
6-10	3.32	5-9	4.25
11-22	4.32	10-up	6.56
23-up	6.65		

* Note: Customers whose total consumption is 10 units or less per month receive a benefit of a lower rate for units 1-5. 1 unit equals 748 gallons.

Customer Class: Commercial

<u>Less Than 10" Meter:</u>	<u>10" Meter or Greater:</u>	<u>Charge Per Unit</u>
1-185 Units	0-7,426 Units	\$3.51
186-1,400 Units	7,427-14,616 Units	3.56
1,401-up Units	14,617-up Units	3.62

Customer Class: Irrigation

<u>3/4"-1" Meter:</u>	<u>1-1/2"-2" Meter:</u>	<u>3" and Up Meter:</u>	<u>Charge Per Unit</u>
1-54 Units	1-144 Units	1-550 Units	\$4.78
54-199 Units	145-355 Units	551-1,200 Units	4.83
200-up Units	356-up Units	1,201-up Units	4.89

Customer Class: Recycled

<u>3/4"-1" Meter:</u>	<u>1-1/2"-2" Meter:</u>	<u>3"-4" Meter:</u>	<u>6" Meter:</u>	<u>Charge Per Unit</u>
1-32 Units	1-130 Units	1-440 Units	1-4,000	\$4.08
32-75 Units	131-325 Units	441-1,050 Units	4,001-10,000	4.14
76-up Units	326-up Units	1,051-up Units	10,001-up Units	4.20

Customer Class: Recycled Commercial

<u>Less Than 10" Meter:</u>	<u>10" Meter:</u>	<u>Charge Per Unit</u>
1-173 Units	1-7,426	\$2.97
174-831 Units	7,427-14,616	3.03
832-up Units	14,617-up Units	3.07

Source: Otay Water District.

As previously noted, the District has estimated that future rate increases will be necessary to implement the current six-year CIP. Additionally, the rates, charges and fees may be increased each year to pass-through additional actual cost increases imposed by the City of San Diego, CWA or MWD if such increases are greater than already factored in to the District's rates.

Table No. 5 compares average residential water rates charged by the District with surrounding cities and other water agencies in San Diego County.

**TABLE NO. 5
COMPARISON OF
AVERAGE RESIDENTIAL WATER RATES
AS OF MARCH 1, 2016**

<u>City/Water Agency</u>	<u>Average Rates ⁽¹⁾</u>
Lakeside	63.02
Santa Fe	67.56
Poway	71.30
San Dieguito	72.01
Sweetwater	73.56
Vallecitos	74.13
Olivenhain	75.73
Carlsbad	79.21
Helix WD	79.23
Oceanside	81.90
Yuima	82.63
Otay Water District	84.94
Rincon	86.78
Vista	88.16
Fallbrook	89.77
San Diego	89.86
Escondido	91.79
Del Mar	99.52
Valley Center	101.54
Rainbow	106.99
Padre Dam Water District - West	113.09
Padre Dam Water District - East	115.30
Ramona	116.44

⁽¹⁾ Average rates based on assumed residential use of 13 HCF of water monthly.

Source: Otay Water District.

Delinquencies. Accounts receivable that have not been paid in over 60 days represent less than 0.39% of the District's annual water sales for the last two Fiscal Years. Accounts receivable between 30 to 60 days delinquent in payment have averaged 0.90% of the District's annual water sales for the last two Fiscal Years. In the last three Fiscal Years, the District has written off less than \$154,000 a year in uncollectible accounts. The collection process includes automatic dialers, making it possible to address collections of smaller balances. The District has improved the collection process related to properties in foreclosure by collecting deposits and locking all vacant properties. The District has also provided convenient payment options by introducing payments by telephone and via the Internet, electronic bill presentation, recurring payments via credit card, and the ability to make water payments at select retailers using the same electronic network used by the District's bank. The District has increased the availability of account information by introducing 24/7 Interactive Voice Response. In addition, with the improvements in online banking systems, the turnaround time on payment processing is only 2 days. These improvements have all assisted the District in better managing its accounts receivable. The District continues to be focused on finding new ways to assist customers in managing their accounts. Recently, the District expanded its delinquent notification process to include an additional bill for closed accounts with outstanding balances and an email and auto dial notification for closed accounts one week prior to being sent to an outside collection agency.

Other Charges. For all connections over a 450 foot elevation, the District charges an energy charge of \$0.072 per 100 feet of elevation over 450 feet.

Capacity Fees and Meter Fees. The District charges capacity fees to connect to the Water System. Current capacity fees are \$8,645 plus the new water supply of \$1,071 for a single family residential connection, increased quarterly according to the Engineering News-Record index. The District also charges a meter fee for the materials and installation cost of a meter. The meter fees range from \$228 for a single family residence to \$11,532 for a 10" meter.

Availability Fees. The District levies and collects annual standby availability charges. Current legislation provides that any availability charge in excess of \$10 per acre shall be used only for the purpose of the improvement district for which it was assessed. Therefore, availability fees shown in "Availability/Annexation Fees" Table No. 12 include only the first \$10 of availability fees.

Annexation Fees. When service is requested outside the boundaries of the District, the land to be serviced is annexed and an annexation fee is charged by the District. Current annexation fees are \$1,924 for single family residential connections and are adjusted quarterly according to the Engineering News-Record index.

Taxes

The County levies a 1% *ad valorem* tax on behalf of all taxing agencies in the County, including the District. For Fiscal Year 2015/16, the District's share of such property tax is projected to be \$3.2 million, representing an increase of \$135,100 from amounts received in Fiscal Year 2015. Such taxes are a source of payment for the Installment Payments due under the 1996 Installment Sale Agreement, the 2010 Installment Purchase Agreement, and debt service on the Bonds and the 2013 Bonds. See "SOURCES OF PAYMENT FOR THE BONDS." All property is assessed using full cash value as defined by Article XIII A of the State Constitution. State law provides exemptions from *ad valorem* property taxation for certain classes of property such as churches, colleges, non-profit hospitals and charitable institutions.

The taxes collected are allocated to taxing agencies within San Diego County, including the District, on the basis of a formula established by State law enacted in 1979 and modified from time to time. Under this formula, the County and all other taxing entities receive a base year allocation plus an allocation on the basis of "situs" growth in assessed value (due to new construction, change of ownership, or a 2% inflation allowance allowed under Article XIII A of the State Constitution) prorated among the jurisdictions which serve the tax rate area within which the growth occurs. Tax rate areas are groups of

parcels which are taxed by the same taxing entities. Cities, counties, special districts and school districts share the growth of “base” revenues from each tax rate area. Assessed valuation growth is cumulative, i.e., each year’s growth in property value becomes part of each District’s allocation in the following year.

Historical assessed valuations for the District may be found in the District’s Comprehensive Annual Financial Report, attached hereto as “APPENDIX B.” During the economic recession between 2008/09 and 2012/13 property values in the District declined by approximately 15%. While the District’s assessed value has had moderate increases in recent year, the 2015/16 assessed value of \$26.057 billion is still slightly lower than the 2008/09 assessed value of \$26.752 billion.

A portion of the District’s tax base is within a redevelopment plan area. The availability of property tax revenue from growth in the tax base was affected by the establishment of redevelopment agencies which, under certain circumstances, were entitled to revenues resulting from the increase in certain property values. However, with the dissolution of redevelopment agencies Statewide as of February 1, 2012, the District receives additional property tax. The District estimates that in Fiscal Year 2015/16 it will receive an additional \$18,821.

California law exempts \$7,000 of the assessed valuation of an owner-occupied dwelling but this exemption does not result in any loss of revenue to local agencies since an amount equivalent to the taxes which would have been payable on such exempt values is made up by the State.

Under AB 454 (Statutes of 1987, Chapter 921), the State reports to each county auditor-controller only the county-wide unitary taxable value of State-assessed utility property, without an indication of the distribution of the value among tax rate areas. The provisions of AB 454 apply to all State-assessed property except railroads and non-unitary properties, and do not constitute an elimination of a revision of the method of assessing utilities by the State Board of Equalization. AB 454 allows generally valuation growth or decline of State-assessed unitary property to be shared by all jurisdictions within a county.

From time to time, legislation has been considered as part of the State budget to shift the share of the 1% *ad valorem* property tax collected by counties from special districts to school districts or other governmental entities (the “ERAF Shift”). While legislation enacted in connection with the Fiscal Year 1992/93 State budget shifted approximately 35% of many special districts’ shares of the countywide 1% *ad valorem* tax, the share of the countywide 1% *ad valorem* tax pledged to debt service by special districts was exempted. None of the State budgets enacted since Fiscal Year 1992/93 have permanently reallocated additional portions of the special districts’ shares of the countywide 1% *ad valorem* tax, although there have been temporary shifts as well as deferrals.

However, in 2009, the California legislature approved amendments to the 2009/10 Budget to close its anticipated \$26.3 billion budget shortfall. The approved amendments included borrowing from local governments by withholding of the equivalent of 8% of Fiscal Year 2008/09 property related tax revenues from cities’, counties’ and special districts’ property tax collections under provisions of Proposition 1A (approved by the voters in 2004), which the State was required to repay with interest within three years. The first (and to date, only) shift occurred in Fiscal Year 2009/10. Fiscal Year 2012/13 was the first year that another shift was allowable, but the State has not implemented another borrowing yet.

There can be no assurance that the share of the 1% *ad valorem* property tax the District currently receives will not be reduced further or deferred or delayed pursuant to State legislation enacted in the future to address future State budget deficits. See Table Nos. 11 and 12 for historic and projected receipts of Taxes.

Personnel

The District has 138 full-time positions budgeted for Fiscal Year 2015/16. The OWD Employee Association (the “Union”) represents 97 of these full-time employees as a collective bargaining unit. The District has not experienced any strikes and continues to have positive labor relations, which includes a

negotiated three-year Collective Bargaining Agreement. This agreement, the Memorandum of Understanding (“MOU”) is in effect from July 1, 2014 to June 30, 2017. As part of this MOU, updates were made to contract language including streamlining grievance and discipline procedures, updating leave provision, eliminating double time and updating assignment of premiums for standby and call back, resulting in approximately \$14,000 annual cost savings for these pay types. Updates to 26 sections of the MOU to further streamline the language were made.

Retirement Program

This caption contains certain information relating to the California Public Employees Retirement System (“CalPERS”). The information is primarily derived from information produced by CalPERS, its independent accountants and its actuaries. The District has not independently verified the information provided by CalPERS and makes no representations nor expresses any opinion as to the accuracy of the information provided by CalPERS.

The comprehensive annual financial reports of CalPERS are available on its Internet website at www.calpers.ca.gov. The CalPERS website also contains CalPERS’ most recent actuarial valuation reports and other information concerning benefits and other matters. The textual reference to such Internet website is provided for convenience only. None of the information on such Internet website is incorporated by reference herein. The District cannot guarantee the accuracy of such information. Actuarial assessments are “forward-looking” statements that reflect the judgment of the fiduciaries of the pension plans, and are based upon a variety of assumptions, one or more of which may not materialize or be changed in the future.

The District provides retirement benefits, disability benefits, periodic cost-of-living adjustments, and death benefits to plan members and beneficiaries (the “Plan”). The Plan is part of the CalPERS, an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State. Benefit provisions are established by State statute and District Resolution.

California Public Employees’ Pension Reform Act of 2013. On September 12, 2012, the Governor signed into law the California Public Employees’ Pension Reform Act of 2013 (the “Reform Act” or “PEPRA”), made changes to CalPERS Plans, most substantially affecting new employees hired after January 1, 2013 (the “Implementation Date”). For non-safety CalPERS participants hired after the Implementation Date, the Reform Act changes the normal retirement age by increasing the eligibility for the 2% age factor from age 55 to 62 and increases the eligibility requirement for the maximum age factor of 2.5% to age 67. Among the other changes to CalPERS, the Reform Act also: (i) requires all new participants enrolled in CalPERS after the Implementation Date to contribute at least 50% of the total annual normal cost of their pension benefit each year as determined by an actuary to a maximum of 8% of salary, (ii) requires CalSTRS to determine the final compensation amount for employees based upon the highest annual compensation earnable averaged over a consecutive 36-month period as the basis for calculating retirement benefits for new participants enrolled after the Implementation Date, and (iii) caps “pensionable compensation” for new participants enrolled after the Implementation Date at 100% of the federal Social Security contribution and benefit base for members participating in Social Security or 120% for members not participating in social security, while excluding previously allowed forms of compensation under the formula such as payments for unused vacation, annual leave, personal leave, sick leave, or compensatory time off. Ultimately, the Reform Act is expected to reduce the District’s long-term pension obligation as existing employees retire and new employees are hired to replace them.

Benefit Tiers. Due to PEPRA, the District has one benefit tier for employees hired prior to January 1, 2013 (“Tier 1”) and one for employees subject to PEPRA (“PEPRA Tier”).

Funding Policy. Active members in the Plan are required to contribute 8% of their annual covered salary and employees in the PEPRA Tier are required to contribute 6.25% of their annual covered salary.

Contribution Rates. The contribution requirements of Plan members and the District are established by CalPERS.

A history of the CalPERS annual portfolio rate of return is shown below. The CalPERS portfolio rate of return for the most recent fiscal year ending June 30, 2015 was 2.4%. For the most recent calendar year 2014 for which data is available, a rate of return of 6.5% was achieved. Future earnings performance and adjustments of assumptions may increase or decrease future contribution rates for plan participants, including the District.

**TABLE NO. 6
PERS HISTORICAL INVESTMENT RETURNS**

Fiscal Year Ending <u>June 30</u>	Rate of <u>Return</u>
2006	12.3%
2007	19.1
2008	(4.9)
2009	(23.4)
2010	11.6
2011	20.9
2012	1.0
2013	12.5
2014	18.4
2015	2.4

Source: California Public Employees' Retirement System.

The District's percentage of payroll for CalPERS payments for the Tier 1 employee Plan for Fiscal Years 2010/11 through 2015/16 and estimates for Fiscal Years 2016/17 through 2021/22 are shown in the table below. These rates do not include the employees' contribution rates.

**TABLE NO. 7
OTAY WATER DISTRICT
EMPLOYER RETIREMENT CONTRIBUTION RATES**

<u>Fiscal Year</u>	<u>Rate</u>
2010/11	20.489%
2011/12	23.428
2012/13	24.318
2013/14	25.435
2014/15	29.152
2015/16	30.812
2016/17*	32.631
2017/18*	34.200
2018/19*	35.800
2019/20*	37.400
2020/21*	37.900
2021/22*	38.300

* Projected by PERS based on various assumptions as of November 2015, including an investment return of 7.5%.

Source: California Public Employees' Retirement System.

Recent Changes in Actuarial Assumptions.

In March 2012, CalPERS voted to decrease the investment rate of return used in future actuarial valuations from 7.75% to 7.5%. This change was implemented over a two-year period beginning with the 2013/14 rates.

In April 2013, CalPERS voted to raise employer rates roughly 50% over the next seven years, replacing current actuarial methods. Over five years, the new method increases employer rates to the level needed to project 100% funding in 30 years.

Also in April 2013, CalPERS approved a recommendation to change the amortization and smoothing policies. Prior to this change, CalPERS employed an amortization and smoothing policy, which spread investment returns over a 15-year period while experience gains and losses were amortized over a rolling 30-year period. Effective with the June 30, 2013 valuations, PERS will no longer use an actuarial value of assets and will employ an amortization and smoothing policy that will spread rate increases or decreases over a five-year period, and will amortize all experience gains and losses over a fixed 30-year period.

The new amortization and smoothing policy was used for the first time in the June 30, 2013 actuarial valuations. These valuations were performed in the fall of 2014 and affect employer contribution rates beginning in Fiscal Year 2015/16.

In February 2014, CalPERS adopted new demographic assumptions regarding improved mortality rates. According to CalPERS, this could result in rates as much as 2% to 5% higher. The impact would be phased in and affects rates beginning in Fiscal Year 2016/17.

Although there is no assurance as to the actual level of CalPERS rates in future fiscal years, the District expects CalPERS rates to stabilize within 5 years as the smoothing policy and other policy changes are fully recognized and there are fewer employees in the original benefit tiers and more employees in the current benefit tiers.

Annual Pension Costs. For the Fiscal Year 2014/15, the District’s annual pension cost and actual contribution was \$3,256,611. The following is a summary of the actuarial assumptions and methods that were applied to the Fiscal Year 2014/15 contribution:

Valuation Date:	June 30, 2013
Actuarial Cost Method:	Entry Age Actuarial Cost Method
Actuarial Assumptions:	
Discount Rate:	7.50%
Projected Salary Increase:	3.30% to 14.20% Depending on Age, Service, and Type of Employment
Inflation:	2.75%
Payroll Growth:	3.00%

Initial unfunded liabilities are amortized over a closed period that depends on the Plan’s date of entry into CalPERS.

Subsequent Plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the Plan are amortized over a rolling period, which results in an amortization of 6% of unamortized gains and losses each year. If the Plan’s accrued liability exceeds the actuarial value of the Plan assets, then the amortization payment of the total unfunded liability may be lower than the payment calculated over a 30-year amortization period.

FIVE-YEAR TREND INFORMATION FOR PERS

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Pension Cost of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2011	\$2,427,744	100%	\$ 0
6/30/2012	2,951,409	100	0
6/30/2013	3,130,754		
6/30/2014	3,294,341		
6/30/2015	3,256,611		

Funded Status and Funding Progress. The schedule of funding progress presents multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing over the time relative to the actuarial accrued liability for benefits.

Set forth below is an analysis of the actuarial value of assets as a percentage of the actuarial accrual liability and the unfunded actuarial accrued liability as a percentage of the annual covered payroll as of June 30 of each year indicated.

Reporting obligations under Governmental Accounting Standards Board Statement No. 68 (“GASB 68”) commenced with financial statements for Fiscal Year 2014/15. Under GASB 68, an employer reports the net pension liability, pension expense and deferred outflows/deferred inflows of resources (as such terms are described in the following paragraph) related to pensions in its financial statements as part of its financial position. As a result of this change in accounting standards, the District’s total net position decreased by approximately \$___ million in Fiscal Year 2014/15, primarily due to an adjustment of approximately \$6.9 million to the unrestricted net position balance as a result of the adoption of GASB 68.

The net pension liability is the plan’s total pension liability based on the Entry Age Normal Actuarial Cost Method less the plan’s fiduciary net position. The pension expense is the change in net pension liability from the previous fiscal year to the current fiscal year, less adjustments. Deferred outflows and deferred inflows of resources related to pensions are certain changes in total pension liability and fiduciary net position that are to be recognized in future pension expense. Under GASB 68, deferred inflows and deferred outflows of resources related to pensions are recognized in pension expense systematically over time. The first amortized amounts are recognized in pension expense for the year in which the gain or loss occurs. The remaining amounts are categorized as deferred inflows and deferred outflows to be recognized in future pension expense.

GASB 68 is a change in accounting reporting standards, but it does not change the District’s CalPERS Plan funding obligations.

See Note 6 of the District’s Comprehensive Annual Financial Report included in “APPENDIX B” for further information about the Plan.

Other Post-Employment Benefits

Plan Description. The District’s defined benefit post-employment healthcare plan (“DPHP”) provides medical benefits to eligible retired District employees and beneficiaries. DPHP is part of the Public Agency portion of the California Employers’ Retiree Benefit Trust Fund (“CERBT”), an agent multiple employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. CalPERS issues a separate Comprehensive Annual Financial Report. Copies of the CalPERS’ annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

Funding Policy. The contribution requirements of plan members and the District are established and may be amended by the Board of Directors (see “Retirement Program - Funding Policy” herein). DPHP members receiving benefits contribute based on their selected plan options of EPO, HMO or PPO. Effective January 1, 2016 contributions by plan members range from \$0 to \$165 per month for coverage to age 65, and from \$0 to \$170 per month, respectively thereafter.

Annual Other Post-Employment Benefits (OPEB) Cost and Net OPEB Obligation/Asset. The District’s annual OPEB cost (expense) is calculated based on the annual required contribution (“ARC”) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal annual cost. Any unfunded actuarial liability (or funding excess) is amortized over a period not to exceed thirty years. The current ARC rate of annual covered payroll is 11.4%.

The following table shows the components of the District’s annual OPEB cost for the year ended June 30, 2015, the amount actually contributed to the plan, and changes in the District’s net OPEB obligation/asset:

Annual required contribution	\$ 1,413,000
Interest on net OPEB (asset)	(752,937)
Adjustment to annual required contribution	<u>713,000</u>
Annual OPEB cost (expense)	1,373,063
Contributions made	<u>2,460,113</u>
Increase in net OPEB (asset)	(1,087,050)
Net OPEB (asset) - beginning of year	<u>(10,385,336)</u>
Net OPEB (asset) - end of year	<u>\$(11,472,386)</u>

For Fiscal Year 2014/15, in addition to the ARC, the District contributed cash benefit payments outside the trust (healthcare premium payments for retirees to Special District Risk Management Authority (“SDRMA”)) in the amount of \$929,113, which is included in the \$2,460,113 of contributions shown above.

TREND INFORMATION FOR CERBT

Fiscal Year Ended	Annual OPEB Cost	% of OPEB Cost Contributed	Net OPEB (Asset) ⁽¹⁾
6/30/2015	\$1,373,063	179%	\$(11,472,386)
6/30/2014	1,386,456	175	(10,385,336)
6/30/2013	1,226,662	183	(9,345,437)

⁽¹⁾ Represents funds on deposit with the CERBT administrator, CalPERS.

Funded Status and Funding Progress. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presents information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for the benefits.

Actuarial Valuation Date	Actuarial Valuation of Assets	Entry Age Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll
6/30/2013	\$11,831,000	\$22,891,000	\$11,060,000	51.68%	\$11,969,000	92.41%
6/30/2011	7,893,000	18,289,000	10,396,000	43.16	12,429,000	83.64
6/30/2009	6,273,000	10,070,000	3,797,000	62.29	11,878,000	31.97

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial assets, consistent with the long-term perspective of the calculations.

The following is a summary of the actuarial assumptions and methods:

Valuation Date:	June 30, 2013
Actuarial Cost Method:	Entry Age Normal Cost Method
Amortization Method:	Level Percent of Payroll
Remaining Amortization Period:	23 Years as of the Valuation Date
Asset Valuation Method:	5 Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return:	7.25% (Net of Administrative Expenses)
Projected Salary Increase:	3.25%
Inflation:	3.00%
Individual Salary Growth:	CalPERS 1997-2007 Experience Study
Healthcare Cost Trend Rate Medical:	10% per annum graded down in approximately one-half percent increments to an ultimate rate of 5%.
Dental:	4% per annum.

See Note 7 in the District's Comprehensive Annual Financial Report included in "APPENDIX B" for further information about the DPHP.

Insurance

General Liability and Property Damage

The District is exposed to various risks of loss related to torts, theft, damage and destruction of assets, errors and omissions, and natural disasters. Beginning in July 2003, the District began participation in a risk financing pool under California Government Code Section 6500 et seq., through Special Districts Risk Management Authority (SDRMA). Coverages through SDRMA are as follows: property coverage – replacement cost to a combined total of \$1 billion per occurrence for scheduled property; replacement cost to \$100 million per occurrence for boiler and machinery; \$500,000 per occurrence for personal liability coverage for board members; \$1 million per loss for employee dishonesty coverage; and \$10 million per occurrence for each of the following types of coverage - auto liability, public officials errors and omissions, employment practices liability and general liability.

Separate financial statements for SDRMA may be obtained at: Special District Risk Management Authority, 1112 I Street, Suite 300, Sacramento, California 95814.

Workers' Compensation

Through SDRMA, the District is insured up to the statutory limit per occurrence for Workers' Compensation and \$5 million in Employer's Liability.

Health Insurance

Beginning in January 2008, the District began providing health insurance through SDRMA covering all of its employees, retirees, and other dependents. SDRMA is a self-funded pooled medical program administered in conjunction with the California State Association of Counties.

District Reserves and Investment Policy

As of June 30, 2015, the District had approximately \$86 million in cash and investments, of which the Board had designated \$22.4 million for capital projects. The District's reserves are not pledged to and do not secure the District's obligation to pay the Bonds.

In accordance with State of California law, the District Board of Directors has approved an investment policy (the "Investment Policy") which complies with Sections 53601 through 53630 of the Government Code of the State of California providing legal authorization for the investment or deposit of funds of local agencies. All investments of the District conform to the restrictions of those laws. The District's investments by category and their respective market value and book value as of January 1, 2016 are set forth in Table 8 below. For additional information relating to the District's investments, see "APPENDIX B - DISTRICT AUDITED FINANCIAL STATEMENTS," Note 2.

**TABLE NO. 8
SUMMARY OF INVESTMENTS
As of January 1, 2016**

<u>Investments</u>	<u>Market Value</u>	<u>Book Value</u>	<u>% of Portfolio</u>
Federal Agency Issues – Callable	\$44,819,485	\$44,934,464	55.24%
Federal Agency Issues – Coupon	3,992,000	3,997,809	4.91%
Certificates of Deposit – Bank	81,785	81,785	0.10%
Local Agency Investment Fund (LAIF)	15,887,911	15,900,839	19.55%
San Diego County Pool	<u>16,363,000</u>	<u>16,436,476</u>	<u>20.20%</u>
	\$81,144,181	\$81,351,373	100.00%

Source: Otay Water District.

The Investment Policy may be changed at any time at the discretion of the District (subject to the State law provisions relating to authorized investments) and as the California Government Code is amended. Any exception to the Investment Policy must, however, be formally approved by the Board of Directors of the District. There can be no assurance the State law or the Investment Policy will not be amended in the future to allow for investments which are currently not permitted under such State law or the Investment Policy, or that the objectives of the District with respect to investments will not change.

Outstanding Indebtedness of the District

The District had outstanding indebtedness as of June 30, 2015 as shown in Table No. 9. The District has not issued any additional debt since June 30, 2015.

TABLE NO. 9
OTAY WATER DISTRICT
OUTSTANDING INDEBTEDNESS
As of June 30, 2015

	<u>Category of Indebtedness</u>	<u>Original Issue</u>	<u>Amount Outstanding</u>	<u>Final Maturity</u>
(1)	1996 Certificates of Participation	\$15,400,000	\$ 9,400,000	2026
(2)	2007 Certificates of Participation	42,000,000	35,795,000	2036
(3)	2009 General Obligation Refunding Bonds	7,780,000	5,150,000	2023
(4)	2010 Water Revenue Bonds Series A	13,840,000	10,590,000	2025
(4)	2010 Water Revenue Bonds Series B	36,355,000	36,355,000	2041
(5)	2013 Water Revenue Refunding Bonds	7,735,000	6,470,000	2023

- (1) As described herein, the 1996 Certificates are payable from installment payments which are secured by a pledge of and lien on Net Revenues and Taxes on a parity with other Existing Parity Obligations including the Bonds. Interest is payable at a variable rate of interest, and the interest rate at February 25, 2016 was 0.02% and was 0.02% at June 30, 2015. At current rates, debt service is expected to be \$600,000 to \$900,000 each year for the next several years.
- (2) To be refinanced with a portion of the proceeds of the Bonds. See “THE FINANCING PLAN.”
- (3) Voters within Improvement District No. 27 of the District authorized \$100 million general obligation bonds in 1989. The District issued \$11,500,000 general obligation bonds in 1992 and refinanced the bonds in 1998 and again in 2009. Annual debt service is approximately \$764,000. The District also has approximately \$29 million of issued general obligation bonds authorized between 1960 and 1978 for various Improvement Districts throughout the District, but unissued. The general obligation bonds are payable solely from *ad valorem* property tax revenues, which are not a part of Taxes which secure the installment payments relating to Existing Parity Obligations or the debt service on the Bonds. The District has no current plans to issue any of the authorized but unissued general obligation bonds.
- (4) The 2010 Bonds were sold by the Otay Water District Financing Authority to provide funds for the construction of water storage and transmission facilities. The 2010 Bonds are payable from installment payments which are secured by a pledge of and lien on Net Revenues and Taxes on a parity with the installment payments securing the other Existing Parity Obligations and the debt service on the Bonds.
- (5) The District issued the 2013 Bonds to refinance its previously issued 2004 Refunding Certificates of Participation. The 2013 Bonds are payable from Net Revenues and Taxes on a parity with the other Existing Parity Obligations and the Bonds.

Source: Otay Water District.

Historical Operating Results

The following table summarizes the Statement of Net Position included in the District's audited financial statements for the last five fiscal years. The audited financial statements of the District for the Fiscal Year ended June 30, 2015 are attached hereto as "APPENDIX B" and should be read in their entirety.

The District accounts for moneys received and expenses paid in accordance with generally accepted accounting principles applicable to governmental agencies such as the District ("GAAP"). In certain cases, GAAP requires or permits moneys collected in one Fiscal Year to be recognized as revenue in a subsequent Fiscal Year and requires or permits expenses paid or incurred in one Fiscal Year to be recognized as expenses in a subsequent Fiscal Year. See "APPENDIX B." Except as otherwise expressly noted herein, all financial information derived from the District's audited financial statements reflects the application of GAAP.

TABLE NO. 10
OTAY WATER DISTRICT ⁽¹⁾
NET ASSETS
For the Fiscal Years Ended June 30

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
ASSETS					
Current Assets:					
Cash and Cash Equivalents	\$ 48,563,129	\$ 31,075,455	\$ 33,958,281	\$ 30,493,474	\$ 23,168,511
Restricted Cash and Cash Equivalents	5,239,430	4,057,726	4,087,042	116,639	47,083
Investments	28,691,752	37,069,853	16,258,960	27,631,622	35,888,511
Board Designated Investments	-	-	14,860,502	21,605,368	22,395,347
Restricted Investments	20,622,679	16,124,042	13,560,004	4,564,972	4,532,725
Accounts Receivable	9,235,138	10,575,970	11,856,029	12,879,121	9,987,050
Accrued Interest Receivable	180,113	106,375	53,950	83,679	97,291
Taxes and Availability Charges Receivable, Net	454,948	481,955	431,159	333,589	321,178
Restricted Taxes and Availability Charges Receivable, Net	75,588	57,313	41,657	41,091	31,848
Inventories	835,321	789,769	800,085	775,007	807,008
Prepaid Expenses and Other Current Assets	<u>1,189,206</u>	<u>1,226,703</u>	<u>1,072,706</u>	<u>1,047,708</u>	<u>988,882</u>
Total Current Assets	<u>\$115,087,304</u>	<u>\$101,565,161</u>	<u>\$ 96,980,375</u>	<u>\$ 99,572,270</u>	<u>\$ 98,265,434</u>
NON-CURRENT ASSETS:					
Net OPEB Asset	\$ 7,416,346	\$ 8,321,902	\$ 9,345,437	\$ 10,385,336	\$ 11,472,386
Deferred Bond Issuance Costs	<u>1,618,069</u>	-	-	-	-
Capital Assets:					
Land	13,636,663	13,703,463	13,714,963	13,714,963	13,714,963
Construction in Progress	17,909,282	17,452,274	17,110,048	11,642,506	15,106,336
Capital Assets, Net of Accumulated Depreciation	<u>442,881,020</u>	<u>449,674,352</u>	<u>445,203,648</u>	<u>441,293,934</u>	<u>430,370,095</u>
Total Capital Assets, Net of Depreciation	<u>474,426,965</u>	<u>480,830,089</u>	<u>476,028,659</u>	<u>466,651,403</u>	<u>459,191,394</u>
Total Non-Current Assets	<u>\$483,461,380</u>	<u>\$489,151,991</u>	<u>\$485,374,096</u>	<u>\$477,036,739</u>	<u>\$470,663,780</u>
TOTAL ASSETS	<u>\$598,548,684</u>	<u>\$590,717,152</u>	<u>\$582,354,471</u>	<u>\$576,609,009</u>	<u>\$568,929,214</u>
DEFERRED OUTFLOWS OF RESOURCES					
Deferred Amount on Refunding	\$ -	\$ -	\$ 390,591	\$ 78,118	\$ -
Deferred Contributions to Pension Plan	-	-	-	-	<u>3,575,595</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 390,591</u>	<u>\$ 78,118</u>	<u>\$ 3,575,595</u>

⁽¹⁾ In Fiscal Year 2012/13, the District implemented GASB 63 which provided a new Statement of Net Position (formerly net assets) format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position.

Continued on next page.

TABLE NO. 10
OTAY WATER DISTRICT ⁽¹⁾
NET POSITION
For the Fiscal Years Ended June 30

Continued from previous page.

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
LIABILITIES					
CURRENT LIABILITIES:					
Current Maturities of Long-term Debt	\$ 3,146,010	\$ 3,320,000	\$ 3,470,000	\$ 3,495,000	\$ 3,690,000
Accounts Payable	13,000,560	10,478,366	11,733,543	11,906,026	9,779,477
Accrued Payroll Liabilities	2,932,277	2,591,272	2,755,421	3,054,520	3,335,149
Other Accrued Liabilities	739,868	3,932,442	3,487,430	3,397,500	3,642,511
Customer Deposits	2,105,187	1,863,992	1,756,983	2,418,754	2,227,173
Accrued Interest	1,656,826	1,639,681	1,518,651	1,564,992	1,540,122
Liabilities Payable From Restricted Assets:					
Restricted Accrued Interest	<u>86,405</u>	<u>81,354</u>	<u>76,154</u>	<u>70,804</u>	<u>65,304</u>
Total Current Liabilities	<u>\$ 23,667,133</u>	<u>\$ 23,907,107</u>	<u>\$ 24,798,182</u>	<u>\$ 25,907,596</u>	<u>\$ 24,279,736</u>
NON-CURRENT LIABILITIES:					
Long-term Debt:					
General Obligation Bonds	\$ 6,298,577	\$ 6,401,271	\$ 5,849,918	\$ 5,283,563	\$ 4,697,208
Certificates of Participation	57,865,531	56,023,740	46,465,525	44,980,314	43,355,103
Revenue Bonds	50,395,822	49,521,421	56,678,987	55,058,490	53,402,993
Net Pension Liability	-	-	-	-	38,723,345 ⁽¹⁾
Other Non-current Liabilities	<u>715,037</u>	<u>721,626</u>	<u>718,543</u>	<u>649,344</u>	<u>656,158</u>
Total Non-Current Liabilities	<u>\$115,274,967</u>	<u>\$112,668,058</u>	<u>\$109,712,973</u>	<u>\$105,971,711</u>	<u>\$140,834,807</u>
TOTAL LIABILITIES	<u>\$138,942,100</u>	<u>\$136,575,165</u>	<u>\$134,511,155</u>	<u>\$131,879,307</u>	<u>\$165,114,543</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred Actuarial Pension Costs	\$ -	\$ -	\$ -	\$ -	\$ 4,967,940
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,967,940</u>
NET POSITION					
Net Investment in Capital Assets	\$377,656,762	\$381,725,015	\$376,549,168	\$357,912,154	\$354,046,090
Restricted for Debt Service	4,915,555	4,715,904	4,612,890	3,855,673	4,658,306
Unrestricted	<u>77,034,267</u>	<u>67,701,068</u>	<u>67,071,849</u>	<u>83,039,993</u>	<u>43,717,930</u>
TOTAL NET POSITION	<u>\$459,606,584</u>	<u>\$454,141,987</u>	<u>\$448,233,907</u>	<u>\$444,807,820</u>	<u>\$402,422,326 ⁽¹⁾</u>

⁽¹⁾ In Fiscal Year 2012/13, the District implemented GASB 63 which provided a new Statement of Net Position (formerly net assets) format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position.

Source: Otay Water District Audited Financial Statements.

Historical Debt Service Coverage

Table No. 11 below sets forth historical Taxes and Net Revenues and Debt Service coverage ratio for the last five fiscal years and the estimated amounts for the current fiscal year.

TABLE NO. 11
HISTORICAL TAXES AND NET REVENUES (in '000's) AND DEBT SERVICE COVERAGE
For the Fiscal Year Ended June 30

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Revenues:					
Water Sales	\$58,270	\$63,803	\$72,158	\$81,287	\$79,135
Meter Fees	2,406	1,994	2,848	2,494	2,120
Availability/Annexation Fees	601	646	655	686	641
Capacity Fees	3,203	3,365	1,412	1,245	2,344
Betterment Fees	614	540	621	742	567
BABS Subsidy ⁽¹⁾	792	830	806	768	752
Investment Earnings	<u>844</u>	<u>416</u>	<u>386</u>	<u>832</u>	<u>959</u>
Total Revenue	\$66,730	\$71,594	\$78,886	\$88,054	\$86,518
Operation and Maintenance Costs:					
Water Purchases	\$34,270	\$38,478	\$44,099	\$48,239	\$46,198
Utilities	2,089	2,068	2,246	2,663	2,895
Payroll	16,152	17,056	17,056	17,943	18,149
Administrative	5,797	4,704	5,139	5,313	5,596
Materials and Maintenance	<u>1,809</u>	<u>1,723</u>	<u>1,689</u>	<u>1,418</u>	<u>1,483</u>
Total Operation and Maintenance Costs	\$60,117	\$64,029	\$70,229	\$75,576	\$74,321
Net Revenues	\$ 6,613	\$ 7,565	\$ 8,657	\$12,478	\$12,197
Taxes	<u>\$ 2,924</u>	<u>\$ 2,890</u>	<u>\$ 2,892</u>	<u>\$ 2,894</u>	<u>\$ 3,129</u>
Taxes and Net Revenues	\$ 9,536	\$10,455	\$11,549	\$15,372	\$15,326
Debt Service					
1996 Installment Payments	\$ 587	\$ 743	\$ 656	\$ 683	\$ 627
2004 Installment Payments	928	930	918	-	-
2007 Installment Payments	2,497	2,499	2,498	2,509	2,502
2010 Installment Payments	2,868	3,729	3,717	3,725	3,720
2013 Bonds	<u>-</u>	<u>-</u>	<u>-</u>	<u>857</u>	<u>864</u>
Total Debt Service	\$ 6,879	\$ 7,901	\$ 7,789	\$ 7,774	\$ 7,813
Coverage Ratio	139%	132%	148%	198%	199%

⁽¹⁾ Build America Bonds interest rate subsidy payable by federal government with respect to the 2010B Bonds. There is no assurance that the federal government will continue to pay the full amount of the subsidy in each year. See "RISK FACTORS - Interest Subsidy Payment; Sequestration."

Source: Otay Water District.

Projected Debt Service Coverage

The projections of Revenues and the corresponding Taxes and Net Revenues shown in Table No. 12 are based on the assumptions shown below. The District believes the assumptions used for the projections are reasonable based on its own data and on projections from outside sources regarding expected growth in the District; however, some assumptions may not materialize and unanticipated events and circumstances may occur (see “RISK FACTORS”). To the extent that the assumptions are not actually realized the coverage levels shown in Table No. 12 will likely be reduced and, if substantial reductions in Net Revenues were to result, the District’s ability to timely pay debt service on the Bonds may be adversely affected.

Following is a discussion of assumptions used in the projection of Revenues, Net Revenues and Taxes:

- (a) Potable connections in equivalent dwelling units (“EDU”) are projected to increase .35% in 2016 and as shown below, for an overall 5.57% increase during the next five year period. Recycled connections in EDUs are projected to increase .06% in 2016 and by 8.10% during the next five year period as shown below. The District has based its projections for growth on information contained in the LGRA Report (see “THE WATER SYSTEM - Capital Improvement Program” herein).

	Potable System		Recycled System	
	Number of Additional EDUs	% Increase	Number of Additional EDUs	% Increase
2017	445	.62%	31	.73%
2018	645	.89%	54	1.26%
2019	865	1.18%	67	1.55%
2020	1,044	1.41%	88	2.00%
2021	1,107	1.47%	114	2.55%

Note: EDUs do not reflect actual number of projected connections. An EDU is the approximate equivalent of 1 single-family home.

- (b) Water sales volume (in acre-feet) is projected as follows. The District is also projecting some future decreases in potable water sales as a result of further conservation, reducing the overall growth in sales volume.

	Potable System	Recycled System	Total
2017	23,304	3,824	27,128
2018	24,141	3,872	28,013
2019	24,425	3,932	28,357
2020	24,780	4,011	28,791
2021	25,141	4,113	29,254

The District receives a credit of \$185 per acre-foot and \$200 per-acre foot from MWD and CWA, respectively, for each acre-foot of recycled water. These credits are included in water sales revenue.

- (c) Water rates to District customers are projected to increase based on the District’s most recently updated projections (see “Water Charges” herein). These projected rates reflect the District’s estimate of potential rate increases that would be passed through to the District’s customers as a result of rate increases by CWA resulting from its funding of the Carlsbad Project desalination

plant (see “Water Supply - CWA Water Supply” herein). Additional increases could be significant and will be incorporated into the District’s projections for future fiscal years. The District has not received any estimates at this time from CWA as to how such rates would be implemented and what the expected rates will be as a result of the Carlsbad Project. The District intends, but does not guarantee, to continue to pass-through any increases in water costs by CWA.

- (d) Capacity and annexation fee rates are estimated to increase 3% in each year based on the projected Engineering News-Record index increases. Revenue from these fees will also increase as the number of connections increase as shown in (a) above. The District has based its projections for growth on information contained in the LRG Report (see “Capital Improvement Program” herein).
- (e) Water availability charges, included in Availability Fees, are limited to an amount not exceeding \$10 per acre per year. To the extent the water availability charges exceeding \$10 per acre and are authorized for operational purposes, such fees are included in Betterment Fees.
- (f) Taxes do not include *ad valorem* taxes levied for the purpose of paying debt service on the District’s 1998 General Obligation Refunding Bonds. Taxes are projected to increase by approximately 2%, annually (see “Taxes” herein).
- (g) Non-operating income is excluded from the projection. Non-operating revenues within “Miscellaneous Revenues” shown in the District’s financial statements consists of property rental and golf course income.
- (h) Water Supply costs are projected to increase 9.8% in 2016 and are anticipated to increase annually as a result of increases in cost of purchased water and usage by new customers as follows:

2017	9.1%
2018	6.2%
2019	5.4%
2020	5.5%
2021	5.7%

These projected increases in supply costs reflect supply cost increase by CWA resulting from the funding of the Carlsbad Project desalination plant by CWA (see “Water Supply - CWA Water Supply” herein.) Two other significant factors are the City of San Diego’s 116% increase in their recycled water cost on January 1, 2016, as well as a new fixed charge implemented by CWA on January 1, 2016 for reliability of \$1.9 million annually. These projections include the District’s intent to continue its practice to pass-through any increases in water costs by CWA and the City of San Diego.

- (i) Operating costs shown in Fiscal Year 2015/16 are based on current year estimates. Costs for subsequent fiscal years include the annual average inflationary factors shown below.

Utilities	4.6%
Materials and Maintenance	4.0%
Administrative Costs	3.0%
Salaries	3.1%
Medical Benefits	2.0%
Workers Comp	5.0%
Other Benefits	9.3%

Base operating costs are also increased based on the projected growth in District operations, similar to the growth rates shown for connections in (a) above.

- (j) The debt service on the 1996 Certificates is calculated based on the existing principal repayment schedule and the Bond Buyer 25 Year Revenue Bond Index as of March 10, 2016 of 3.86%. The current letter of credit expires in June 2017. The projections include the letter of credit fees of approximately \$_____ annually.
- (k) The Interest Subsidy Payment reflects an estimated \$_____ reduction as a result of sequestration, allocated proportionately between fiscal years. See “RISK FACTORS - Interest Subsidy Payment; Sequestration” herein.

TABLE NO. 12
PROJECTED TAXES AND NET REVENUES (in '000's) AND DEBT SERVICE COVERAGE
For the Fiscal Year ended June 30 ⁽¹⁾

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Revenues:						
Water Sales	\$ 72,600 ⁽¹⁾	\$ 80,348	\$ 87,223	\$ 92,484	\$ 97,049	\$101,910
Meter Fees	1,392	1,403	1,420	1,433	1,448	1,463
Availability/Annexation Fees	633	637	642	650	659	669
Capacity Fees	1,418	3,351	5,412	8,635	11,122	12,027
Betterment Fees	444	462	481	500	520	541
BABS Subsidy ⁽²⁾	771	770	770	770	770	770
Investment Earnings	<u>894</u>	<u>1,024</u>	<u>1,070</u>	<u>1,088</u>	<u>1,186</u>	<u>1,326</u>
Total Revenue	\$ 78,152	\$ 87,995	\$ 97,018	\$105,560	\$112,754	\$118,706
Operation and Maintenance Costs:						
Water Purchases	\$ 41,255 ⁽¹⁾	\$ 46,578	\$ 51,279	\$ 54,843	\$ 58,758	\$ 63,020
Utilities	2,563	2,726	2,908	3,047	3,203	3,371
Payroll	19,700	20,629	21,370	21,585	22,066	22,555
Administrative	4,286	4,634	4,701	4,576	4,680	4,765
Materials and Maintenance	<u>2,456</u>	<u>2,411</u>	<u>2,515</u>	<u>2,617</u>	<u>2,723</u>	<u>2,831</u>
Total Operation and Maintenance Costs	\$ 70,260	\$ 76,978	\$ 82,773	\$ 86,668	\$ 91,430	\$ 96,542
Net Revenues	\$ 7,892	\$ 11,017	\$ 14,245	\$ 18,892	\$ 21,324	\$ 22,164
Taxes	<u>\$ 3,213</u>	<u>\$ 3,309</u>	<u>\$ 3,409</u>	<u>\$ 3,511</u>	<u>\$ 3,688</u>	<u>\$ 3,875</u>
Taxes and Net Revenues	\$ 11,105	\$ 14,326	\$ 17,654	\$ 22,403	\$ 25,012	\$ 26,039
Debt Service						
2013 Bonds	\$ 857	\$ 853	\$ 852	\$ 849	\$ 851	\$ 851
1996 Installment Payments	812	719	710	803	795	785
2007 Installment Payments	2,503	2,503	2,501	2,496	2,495	2,495
2010 Water Revenue Bonds A & B ⁽²⁾	<u>3,713</u>	<u>3,706</u>	<u>3,709</u>	<u>3,705</u>	<u>3,696</u>	<u>3,694</u>
Total Debt Service	\$ 7,885	\$ 7,781	\$ 7,772	\$ 7,853	\$ 7,837	\$ 7,825
Coverage Ratio	141%	184%	228%	286%	320%	333%

⁽¹⁾ Water sales are estimated to be 92% of actual sales in Fiscal Year 2014/15 and water purchases are estimated to be 89% of actual water purchases in Fiscal Year 2014/15. See Table No. 11 herein.

⁽²⁾ For the purpose of calculating the coverage ratio, when the 1996 Certificates are no longer outstanding, the BABS Subsidy payments will be deducted from Net Revenues and the calculation of Debt Service payable by the District on Parity Bonds or Contracts will be reduced by the amount of the Interest Subsidy Payments the District is entitled to receive during such twelve-month period. See "RISK FACTORS - Interest Subsidy Payment; Sequestration."

Source: Otay Water District.

The projected Revenues, Taxes and Operation and Maintenance Costs shown above are subject to several variables as described on the previous pages. The District provides no assurance that the projected Taxes and Net Revenues will be achieved (see "RISK FACTORS" herein).

SOURCES OF PAYMENT FOR THE BONDS

General

Pursuant to the Indenture, the Bonds are payable from and secured by Taxes and Net Revenues held under the Indenture and investment earnings thereon, all as set forth in the Indenture and in the manner described herein.

The Bonds are not secured by, and the Owners of Bonds have no security interest in or mortgage on the property of the Water System, or of the District. Default by the District will not result in loss of any property. Should the District default, the Trustee may declare all unpaid principal, together with accrued interest at the rate or rates specified on the respective outstanding Bonds from the immediately preceding Interest Payment Date on which payment was made, to be immediately due and payable, whereupon the same shall become due and payable, and take whatever action at law or in equity may appear necessary or desirable to accelerate the principal of the Outstanding Bonds, or enforce performance and observance of any obligation, agreement or covenant of the District under the Indenture. See “RISK FACTORS - Limited Recourse on Default.”

The District’s obligation to pay the Bonds is a limited obligation of the District payable solely from Taxes and Net Revenues of the Water System, and neither the full faith and credit nor the taxing power of the District, the State of California or any of its political subdivisions is pledged for the payment of the Bonds.

Taxes and Net Revenues

The following definitions are from the Indenture and capitalized terms used below have the meanings set forth in the Indenture, except for the term “Bonds” as defined in the Indenture which is referred to below as “Parity Bonds.” See “APPENDIX A - SUMMARY OF INDENTURE.”

The Taxes and Net Revenues securing the Bonds are payable on parity with installment payments securing the District’s 1996 Certificates and the 2010 Bonds and debt service on the 2013 Bonds (the “Existing Parity Obligations”) and other Contracts and Parity Bonds issued in the future.

“Taxes” means all taxes, including *ad valorem* taxes of the District, other than taxes imposed pursuant to Chapter 1 of Part 9 of the Law to secure general obligation bonds of the District or any improvement district thereof.

“Revenues” means (i) all water availability charges imposed pursuant to Chapter 2 of Part 5 of the Law not exceeding \$10 per acre per year; (ii) all income, rents, rates, fees, charges and other moneys derived by the District from the ownership or operation of the Water System, including, without limiting the generality of the foregoing, (a) all income, rents, rates, fees, charges or other moneys derived from the sale, furnishing, and supplying of water and other services, facilities and commodities sold, furnished or supplied through the facilities of the Water System, including connection fees, (b) the earnings on and income derived from the investment of such income, rents, rates, fees and charges or other moneys, (c) the proceeds derived by the District directly or indirectly from the sale, lease or other disposition of a part of the Water System as permitted under the Indenture and (d) Interest Subsidy Payments; provided that the term “Revenues” shall not include customers’ deposits or any other deposits subject to refund until such deposits have become the property of the District.

“Operation and Maintenance Costs” means (i) costs spent or incurred for maintenance and operation of the Water System calculated in accordance with generally accepted accounting principles, including (among other things) the reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Water System in good repair and working order, and including administrative costs of the District that are charged directly or apportioned to the Water System, including but not limited

to salaries and wages of employees, payments to the Public Employees Retirement System, overhead, insurance, taxes (if any), fees of auditors, accountants, attorneys or engineers and insurance premiums, and including all other reasonable and necessary costs of the District or charges (other than Debt Service payments) required to be paid by it to comply with the terms of the Indenture or any Contract or of any resolution or indenture authorizing the issuance of any Parity Bonds or of such Parity Bonds; and (ii) costs spent or incurred in the purchase of water for the Water System; but excluding in all cases depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles or other bookkeeping entries of a similar nature and all capital charges.

“Net Revenues” means, for any Fiscal Year or other 12-month period, the Revenues for such Fiscal Year or other 12-month period less the Operation and Maintenance Costs for such Fiscal Year or other 12-month period. See “Rate Covenant” and “Parity Debt” herein.

“Interest Subsidy Payments” means cash subsidy payments entitled to be received by the District from the United States Treasury with respect to the 2010B Bonds and any Parity Bonds issued and Contracts executed by the District, including but not limited to “Build America Bonds” issued as contemplated by the American Recovery and Reinvestment Act of 2009.

The District will timely submit all required documentation to the United States Treasury and take any and all action necessary to receive and collect the Interest Subsidy Payments.

Allocation of Taxes and Net Revenues

In order to carry out and effectuate the pledge and lien contained in the Indenture, the District has agreed and covenanted that all Revenues and Taxes shall be received by the District in trust and shall be deposited when and as received in special funds designated as the “Revenue Fund” and the “Tax Fund,” respectively, which funds were previously maintained by the District in accordance with the provisions of the Existing Parity Obligations, and are continued by the terms of the Indenture, and which funds the District has agreed and covenanted to maintain and to hold separate and apart from other funds so long as any Contracts or Parity Bonds remain unpaid, including the Bonds. Moneys in the Revenue Fund and Tax Fund shall be used and applied by the District as provided in the Indenture and in the other Contracts and Parity Bonds. All moneys in the Revenue Fund shall be held in trust and shall be applied, used and withdrawn for the purposes set forth in the Indenture.

The District shall, from the moneys in the Revenue Fund, pay all Operation and Maintenance Costs (including amounts reasonably required to be set aside in contingency reserves for Operation and Maintenance Costs, the payment of which is not then immediately required) as such Operation and Maintenance Costs become due and payable. All moneys in the Tax Fund, and, to the extent such moneys are insufficient, all remaining moneys in the Revenue Fund shall be set aside by the District at the following times for the transfer to the following respective special funds in the following order of priority:

- (i) Interest and Principal Payments. Not later than the fifth Business Day prior to each Interest Payment Date, the District shall, from the moneys in the Tax Fund, and to the extent needed, the Revenue Fund, transfer to the Trustee for deposit in the Payment Fund the payments of interest and principal on the Bonds due and payable on such Interest Payment Date. The District shall also, from the moneys in the Tax Fund, and to the extent needed, the Revenue Fund, transfer to the applicable trustee or payee for deposit in the respective payment fund, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, any other Debt Service in accordance with the provisions of any Parity Bond or Contract.
- (ii) Reserve Funds. On or before each Interest Payment Date the District shall, from the remaining moneys in the Tax Fund, and to the extent needed, the Revenue Fund, thereafter, without preference or priority and in the event of any insufficiency of such moneys ratably without any

discrimination or preference, transfer to the applicable trustee for the reserve funds and/or accounts, if any, as may have been established in connection with Parity Bonds or Contracts, that sum, if any, necessary to restore such funds or accounts to an amount equal to the reserve requirement with respect thereto and to transfer to any insurer any amounts due pursuant to any agreement related to the repayment of draws under any reserve policy or other credit instrument funding a reserve requirement for any Parity Bonds or Contracts.

- (iii) Surplus. Moneys on deposit in the Tax Fund or the Revenue Fund on any date when the District reasonably expects such moneys will not be needed for the purposes described above may be expended by the District at any time for any purpose permitted by law

No Reserve Fund for the Bonds

There is no reserve fund established for the Bonds, the 2013 Bonds or the 1996 Certificates.

With respect to the reserve requirement attributable to the 2010 Bonds, the District deposited \$3,738,105.85 in the 2010 Bonds reserve fund. None of the amounts deposited in the 2010 Bonds reserve fund are available for payment of the Bonds.

Event of Default and Acceleration of Maturities

The Bonds are payable only from Taxes and Net Revenues and are not secured by, and the Bond Owners have no security interest in or mortgage on the property of the Water System or any other assets of the District. Should the District default, the Trustee, shall have the right at its option and without any further demand or notice, but subject in all respects to the provisions of the Indenture, to declare the entire principal amount of the unpaid Bonds and the accrued interest thereon to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable, anything contained in the Indenture to the contrary notwithstanding. See “APPENDIX A - SUMMARY OF INDENTURE - Events of Default and Remedies of 2016 Bond Owners.”

Rate Covenant

Pursuant to the Indenture, the District will covenant to fix, prescribe, revise and collect rates, fees and charges for the Water Service which will be at least sufficient to yield during each fiscal year Taxes and Net Revenues equal to 125% of the Debt Service (including for purposes of such calculation the obligation of the District to repay costs related to any surety bond, reserve credit facility or other reserve fund funding instrument) on the Bonds, the Existing Parity Obligations and additional Contracts or Parity Bonds (as defined herein) for such fiscal year. The District may make adjustments from time to time in such rates and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates and charges then in effect unless the Taxes and Net Revenues from such reduced rates and charges will at all times be sufficient to meet the requirements of the Indenture.

See “APPENDIX A - SUMMARY OF INDENTURE.”

Parity Debt

Pursuant to the Existing Parity Obligations and the Indenture, the District may at any time execute any contract or issue any bonds the payments under or of which are on a parity with the Bonds (“Contracts” or “Parity Bonds”), as the case may be, provided an Independent Financial Consultant or Independent Certified Public Accountant shall render to and file with the District and the Trustee a written report certifying that Taxes and Net Revenues for any 12 consecutive calendar months in the 18 calendar months immediately preceding the issuance of the additional Contracts or Parity Bonds adjusted as set forth below are at least equal to 125% of Debt Service (including for purposes of such calculation the

obligation of the District to repay costs related to any surety bond, reserve credit facility or other reserve fund funding instrument), assuming such additional Contracts had been executed or Parity Bonds had been issued at the beginning of such twelve-month period.

For purposes of calculating the ratio required for the issuance of additional Contracts or Parity Bonds, when the 1996 Certificates are no longer outstanding, the Interest Subsidy Payments will be deducted from Net Revenues and the calculation of Debt Service payable by the District on Parity Bonds or Contracts will be reduced by the amount of the Interest Subsidy Payments the District is entitled to receive during such twelve-month period.

For the purposes of the calculations described above, the adjustments to Net Revenues and Debt Service relating to the Interest Subsidy Payments will be made when the 1996 Certificates are no longer outstanding with respect to the 2010B Bonds or with respect to any Parity Bonds or additional Contracts that are designated as “Build America Bonds.”

For purposes of calculating Net Revenues as set forth in the preceding paragraph, adjustments to the computations of Net Revenues may be made for the following:

- (1) any change in service charges which has been adopted subsequent to the commencement of the twelve-month period but prior to the date of issuance or execution of the Parity Bonds or additional Contracts;
- (2) customers added to the Water System subsequent to the commencement of the twelve-month period but prior to the date of issuance or execution of the Parity Bonds or additional Contracts;
- (3) the estimated change in Net Revenues which will result from the connection of existing residences or businesses to the Water System within one year following completion of any project to be funded or system to be acquired from the proceeds of such Parity Bonds or additional Contracts; and
- (4) the estimated change in Net Revenues which will result from services provided under any long-term, guaranteed contract that extends for the life of the Parity Bonds or additional Contracts if entered into subsequent to the commencement of the twelve-month period but prior to the date of issuance or execution of the Parity Bonds or additional Contracts.

Notwithstanding the foregoing, Parity Bonds issued or additional Contracts executed to refund Parity Bonds or additional Contracts (including refunding of the Existing Parity Obligations or the Bonds), may be delivered without satisfying the conditions set forth above if Debt Service in each Fiscal Year after the Fiscal Year in which such Parity Bonds are issued or additional Contracts executed is not greater than Debt Service would have been in each such Fiscal Year prior to the issuance of such Parity Bonds or execution of such additional Contracts. Further, for the purpose of calculating Debt Service for any Parity Bonds or additional Contracts which bear a variable interest rate, the rate of interest used to calculate Debt Service shall be 110% of the greater of (i) the then current variable interest rate borne by such Parity Bonds or additional Contracts (which includes outstanding 1996 Certificates) plus 2%, and (ii) the highest variable rate borne over the preceding 12 months by outstanding variable rate debt issued by the District or, if no such variable rate debt is at the time outstanding, by variable rate debt of which the interest rate is computed by reference to an index comparable to that to be utilized in determining the interest rate for the debt then proposed to be issued. See “APPENDIX A - SUMMARY OF INDENTURE.”

In addition to the foregoing, in the event any amounts that are past due and owing to any insurer of Parity Bonds or with respect to any Contracts, such insurer must provide written consent to the issuance of any additional Parity Bonds or the execution of any Contracts.

Property Insurance

The Indenture requires the District to maintain or cause to be maintained with respect to the properties of the Water System, insurance in such amounts and against such risks (including accident to or destruction of the Water System which are of an insurable nature) as are usually covered in connection with facilities similar to the Water System so long as such insurance is available from reputable insurance companies. All proceeds of insurance against property damage and all proceeds of condemnation awards shall be payable to the District alone, and the District shall retain and collect such proceeds. All claims under any such insurance policy or with respect to any condemnation proceeding relating to the Water System may be settled by the District without the consent of the Trustee. Such proceeds shall be applied by the District to the repair or rebuilding of the Water System or to repay the Bonds, other Contracts and Parity Bonds. See also "APPENDIX A - SUMMARY OF INDENTURE - Particular Covenants - Insurance" herein.

CONSTITUTIONAL LIMITATIONS ON TAXES AND APPROPRIATIONS

Article XIII B Gann Limit

Article XIII B of the California State Constitution limits the annual appropriations of the State and of any city, county, school district, authority or other political subdivision of the State to the level of appropriations of the particular governmental entity for the prior fiscal year, as adjusted for changes in the cost of living and population. The "base year" for establishing such appropriation limit is the 1978-79 fiscal year and the limit is to be adjusted annually to reflect changes in population and consumer prices. Adjustments in the appropriations limit of an entity may also be made if (i) the financial responsibility for a service is transferred to another public entity or to a private entity, (ii) the financial source for the provision of services is transferred from taxes to other revenues, or (iii) the voters of the entity approve a change in the limit for a period of time not to exceed four years.

Appropriations subject to Article XIII B generally include the proceeds of taxes levied by the State or other entity of local government, exclusive of certain State subventions and refunds of taxes. "Proceeds of taxes" include, but are not limited to, all tax revenues and the proceeds to an entity of government from (i) regulatory licenses, user charges, and user fees (but only to the extent such proceeds exceed the cost of providing the service or regulation), and (ii) the investment of tax revenues. Article XIII B includes a requirement that if an entity's revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

Certain expenditures are excluded from the appropriations limit including payments of indebtedness existing or legally authorized as of January 1, 1979, or of bonded indebtedness thereafter approved by the voters and payments required to comply with court or federal mandates which without discretion require an expenditure for additional services or which unavoidably make the providing of existing services more costly.

The District is of the opinion that its charges with respect to Water Service do not exceed the costs that it reasonably bears in providing Water Service and are not subject to the limits of Article XIII B.

Proposition 218

General. On November 5, 1996, California voters approved Proposition 218, the so-called "Right to Vote on Taxes Act." Proposition 218 added Articles XIII C and XIII D to the State Constitution, which affect the ability of local governments to levy and collect both existing and future taxes, assessments, and property-related fees and charges. Proposition 218, which generally became effective on November 6, 1996, changed, among other things, the procedure for the imposition of any new or increased property-related "fee" or "charge," which is defined as "any levy other than an ad valorem tax, a special tax or an

assessment, imposed by a local government upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property related service” (and referred to in this section as a “property related fee or charge”).

On November 2, 2010, California voters approved Proposition 26, the so-called “Supermajority Vote to Pass New Taxes and Fees Act.” Section 1 of Proposition 26 declares that Proposition 26 is intended to limit the ability of the State Legislature and local government to circumvent existing restrictions on increasing taxes by defining the new or expanded taxes as “fees.” Proposition 26 amended Articles XIII A and XIII C of the State Constitution. The amendments to Article XIII A limit the ability of the State Legislature to impose higher taxes (as defined in Proposition 26) without a two-thirds vote of the Legislature. Proposition 26’s amendments to Article XIII C broadly define “tax,” but specifically exclude, among other things:

- A charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege.
- A charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product.
- A charge imposed as a condition of property development.
- Assessments and property-related fees imposed in accordance with the provisions of Article XIII D.

Property-Related Fees and Charges. Under Article XIII D, before a municipality may impose or increase any property-related fee or charge, the entity must give written notice to the record owner of each parcel of land affected by that fee or charge. The municipality must then hold a hearing upon the proposed imposition or increase at least 45 days after the written notice is mailed, and, if a majority of the property owners of the identified parcels present written protests against the proposal, the municipality may not impose or increase the property-related fee or charge.

Further, under Article XIII D, revenues derived from a property-related fee or charge may not exceed the funds required to provide the “property-related service” and the entity may not use such fee or charge for any purpose other than that for which it imposed the fee or charge. The amount of a property-related fee or charge may not exceed the proportional cost of the service attributable to the parcel, and no property-related fee or charge may be imposed for a service unless that service is actually used by, or is immediately available to, the owner of the property in question.

Initiative Power. In addition, Article XIII C states that “the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge. The power of initiative to affect local taxes, assessments, fees and charges shall be applicable to all local governments and neither the Legislature nor any local government charter shall impose a signature requirement higher than that applicable to Statewide statutory initiatives.”

Judicial Interpretation of Articles XIII C and XIII D. After Proposition 218 was enacted in 1996, appellate court cases and an Attorney General’s opinion initially indicated that fees and charges levied for water and wastewater services would not be considered property-related fees and charges, and thus not subject to the requirements of Article XIII D regarding notice, hearing and protests in connection with any increase in the fees and charges being imposed. However, three cases have held that certain types of water and wastewater charges could be subject to the requirements of Article XIII D under certain circumstances.

In *Richmond v. Shasta Community Services District* (2004) 32 Cal.4th 409, the California Supreme Court addressed the applicability of the notice, hearing and protest provisions of Article XIID to certain charges related to water service. In *Richmond*, the Court held that capacity charges are not subject to Proposition 218. The Court also indicated in dictum that a fee for ongoing water service through an existing connection could, under certain circumstances, constitute a property-related fee and charge, with the result that a local government imposing such a fee and charge must comply with the notice, hearing and protest requirements of Article XIID.

In *Howard Jarvis Taxpayers Association v. City of Fresno* (2005) 127 Cal.App.4th 914, the California Court of Appeal, Fifth District, concluded that water, sewer and trash fees are property-related fees subject to Proposition 218, and a municipality must comply with Article XIID before imposing or increasing such fees. The California Supreme Court denied the City of Fresno's petition for review of the Court of Appeal's decision on June 15, 2005.

In July 2006, the California Supreme Court, in *Bighorn-Desert View Water Agency v. Verjil* (2006) 39 Cal.4th 205, addressed the validity of a local voter initiative measure that would have (a) reduced a water agency's rates for water consumption (and other water charges), and (b) required the water agency to obtain voter approval before increasing any existing water rate, fee, or charge, or imposing any new water rate, fee, or charge. The court adopted the position indicated by its statement in *Richmond* that a public water agency's charges for ongoing water delivery are "fees and charges" within the meaning of Article XIID, and went on to hold that charges for ongoing water delivery are also "fees" within the meaning of Article XIIC's mandate that the initiative power of the electorate cannot be prohibited or limited in matters of reducing or repealing any local tax, assessment, fee or charge. Therefore, the court held, Article XIIC authorizes local voters to adopt an initiative measure that would reduce or repeal a public agency's water rates and other water delivery charges. (However, the court ultimately ruled in favor of the water agency and held that the entire initiative measure was invalid on the grounds that the second part of the initiative measure, which would have subjected future water rate increases to prior voter approval, was not supported by Article XIIC and was therefore invalid.)

The court in *Bighorn* specifically noted that it was not holding that the initiative power is free of all limitations; the court stated that it was *not* determining whether the electorate's initiative power is subject to the statutory provision requiring that water service charges be set at a level that will pay for operating expenses, provide for repairs and depreciation of works, provide a reasonable surplus for improvements, extensions, and enlargements, pay the interest on any bonded debt, and provide a sinking or other fund for the payment of the principal of such debt as it may become due.

On April 20, 2015, the California Court of Appeal, Fourth District, issued an opinion in *Capistrano Taxpayers Association, Inc. v. City of San Juan Capistrano*, 235 Cal. App. 4th 1493 (2015) (the "SJC Case") upholding tiered water rates under Proposition 218 provided that the tiers correspond to the actual cost of furnishing service at a given level of usage. The opinion was specific to the facts of the case, including a finding that the City of San Juan Capistrano did not attempt to calculate the actual costs of providing water at various tier levels. The District's tiered water rates, are described under the caption "THE WATER SYSTEM - Water Charges." The District does not currently expect the decision in the SJC Case to affect its water rate structure.

[discuss recent developments with respect to the District]

Conclusion. It is not possible to predict how the courts will further interpret Article XIIC and Article XIID in future judicial decisions and what, if any, further implementing legislation will be enacted.

Under the *Bighorn* case, local voters could adopt an initiative measure that reduces or repeals water rates and charges, though it is not clear whether (and California courts have not decided whether) any such reduction or repeal by initiative would be enforceable in a situation in which such rates and charges are pledged to the repayment of bonds or other indebtedness, as is the case with respect to the Bonds.

The District believes that its rates with respect to the Water Service comply with the requirements of Proposition 218 and expect that future fees and charges will comply with Proposition 218's procedural and substantive requirements to the extent applicable thereto. The requirements of, or a voter initiative pursuant to, Proposition 218 could impact the ability of the District to set or raise service charges.

There can be no assurance that the courts will not further interpret, or the voters will not amend, Article XIIC and Article XIID to limit the ability of local agencies to impose, levy, charge and collect increased fees and charges for water, or to call into question previously adopted water rate increases.

Future Initiatives

Articles XIIB, XIIC and XIID were adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time other initiatives could be proposed and adopted affecting the revenues of the District.

RISK FACTORS

The following information should be considered by prospective investors in evaluating the 1996 Certificates. However, the following does not purport to be an exhaustive listing of risks and other considerations which may be relevant to investing in the Bonds. In addition, the order in which the following information is presented is not intended to reflect the relative importance of any such risks.

System Demand

There can be no assurance that the local demand for service provided by the Water System will increase to levels described in this Official Statement under the heading "THE WATER SYSTEM." Reduction in the level of new connections could require an increase in rates or charges in order to produce Taxes and Net Revenues sufficient to comply with the District's rate covenant in the Indenture. Such rate increases could increase the likelihood of nonpayment, and could also further decrease demand. Furthermore, there can be no assurance that any other entity with regulatory authority over the Water System will not adopt further restrictions on the operation of the Water System.

Drought

[to be completed]

Increased Operation and Maintenance Costs

There can be no assurance that Operation and Maintenance Costs of the Water System will be consistent with the levels contemplated in this Official Statement. Changes in technology, increases in the cost of operation, increased water treatment requirements or other costs mandated by regulatory agencies, including but not limited to any additional unexpected cost to treat desalinated water received from the Carlsbad Project and the NSC Desalination Plant when and if constructed (see "THE WATER SYSTEM - Water Supply - Historic and Projected Water Supply") pension costs or other expenses could require increases in rates or charges in order to comply with the rate covenant described herein and in the Indenture, and could increase the possibility of nonpayment of the Bonds.

Additional Obligations Payable from Taxes and Net Revenues

The District may issue additional Parity Bonds or enter into additional Contracts payable from Taxes and Net Revenues on a parity with its pledge of such Taxes and Net Revenues to the debt service on the Bonds and the installment payments relating to the Existing Parity Obligations. The ability of the District

to enter into such Parity Bonds and Contracts is subject to certain requirements set forth in the Indenture. See “SOURCES OF PAYMENT FOR THE BONDS - Parity Debt.”

The District may also enter into obligations payable from Taxes and Net Revenues which are subordinate to the Bonds and Existing Parity Obligations.

Risks Relating to Water Supplies

The District’s current potable water supply primarily comes from purchases from CWA, which in turn currently purchases approximately 87% of its water supply from MWD and IID. This source of water could become limited due to possible events that include prolonged droughts or similar changes in State-wide weather patterns, earthquakes or other natural disasters, contamination by environmental hazards, or acts of terrorism or civil unrest. There can be no assurance that currently available water supplies would be sufficient to meet demand under current conditions in the event of a prolonged drought or other interruption of the District’s source of water supply, or that the District would be able to secure alternate sources of water to meet its customer demand. See “THE WATER SYSTEM - Water Supply” herein for a discussions of the water supply in the region and the District’s sources of water in particular.

Environmental Regulation

The kind and degree of water treatment effected through the water system is regulated, to a large extent, by the federal government and the State of California. Treatment standards set forth in federal and state law control the operations of the Water System and mandate the use of water treatment technology. If the federal government, acting through the Environmental Protection Agency, or the State of California, acting through the Department of Health Services, or additional federal or state agencies, should impose stricter water quality standards upon the Water System, the District’s expenses could increase accordingly and rates and charges would have to be increased to offset those expenses. It is not possible to predict the direction federal or state regulation will take with respect to water quality standards, although it is likely that, over time, both will impose more stringent standards with attendant higher costs.

Proposition 218

On November 5, 1996, California voters approved Proposition 218-Voter Approval for Local Government Taxes-Limitation on Fees, Assessments, and Charges-Initiative Constitutional Amendment. Proposition 218 added Articles XIIC and XIID to the California Constitution, imposing certain vote requirements and other limitations on the imposition of new or increased taxes, assessments and property-related fees and charges. See “CONSTITUTIONAL LIMITATIONS ON TAXES AND APPROPRIATIONS - Proposition 218” for a discussion of specific issues and risks raised by Proposition 218. The District’s current projections assume future rate increases which will be subject to the Proposition 218 notice process.

Casualty Risk; Earthquakes

Any natural disaster or other physical calamity, including drought, wildfires, floods, landslides, high winds or earthquakes, may have the effect of reducing Revenues and Taxes through damage to the Water System and/or adversely affecting the economy of the surrounding area. The Indenture requires the District to maintain insurance or self-insurance, but only if and to the extent available at a reasonable cost from reputable insurers, and the District is not expressly required to provide earthquake insurance. The District is located in a seismically active region and structures in the District could be impacted by a major earthquake originating from the numerous faults in the area. Seismic hazards encompass both potential surface rupture and ground shaking. In the event of total loss of the Water System, there can be no assurance that insurance proceeds will be adequate to rebuild the Water System or to repay all Outstanding Bonds or that losses in excess of the insured amount will not occur.

Interest Subsidy Payment; Sequestration

The 2010B Bonds were designated as “Build America Bonds,” and as such, qualified for the Interest Subsidy Payment from the United States Treasury equal to 35% of the interest payable with respect to the 2010B Bonds.

Sequestration, sometimes called “the sequester,” is a process that automatically cuts the federal budget across all departments and agencies. Sequestration was included in the Budget Control Act of 2011 as a way to encourage compromise on deficit reduction efforts. When Congress did not agree on a budget by the deadline set in the Budget Control Act, mandatory budget cuts were scheduled to go into effect on January 2, 2013. Congress stopped the cuts from happening by passing the American Taxpayer Relief Act of 2012 on January 1, 2013. This law pushed the budget cuts back until March 1, 2013. Congress did not agree on a budget to reduce the deficit by March 1, 2013, or agree on other legislation extending the date for implementation of the mandatory budget cuts, and on March 1, 2013, in accordance with Section 251A of the Balanced Budget and Emergency Deficit Control Act, as amended, President Obama issued a sequestration order for Fiscal Year 2013.

On March 4, 2013, the Internal Revenue Service published a notice that set forth the sequestration reduction rate to be applied until the end of the federal government’s fiscal year (September 30, 2013). As determined by the Office of Management and Budget, payments to issuers from the budget accounts associated with certain qualified bonds, such as the 2010B Bonds referenced above, were subject to a reduction of 8.7% of the amount budgeted for such payments. The Interest Subsidy Payment has been subjected to further reductions since that time. The reduction for the federal government’s current fiscal year (ending September 30, 2016) is 5.9%. Under a federal budget bill enacted in December 2013, the reduction in Interest Subsidy Payments will continue through September 30, 2023. The District cannot predict the amount of reduction in Interest Subsidy Payments due to any future sequestration or the period of time that Interest Subsidy Payments will be reduced due to any future sequestration. The projected operating results set forth under the caption “THE WATER SYSTEM - Projected Debt Service Coverage” reflect announced reductions in Interest Subsidy Payments

Limited Recourse on Default

If the District defaults on its obligation to pay debt service on the Bonds when due, the Trustee has the right to accelerate the total unpaid principal amount of the Bonds. However, in the event of a default and such acceleration there can be no assurance that the District will have sufficient Taxes and Net Revenues to pay the accelerated principal. Default by the District will not result in loss of the Water System or any other assets of the District.

So long as the Bonds are in book-entry form, DTC (or its nominee) will be the sole registered owner of the Bonds, and the rights and remedies of the Bond Owners will be exercised through the procedures of DTC.

Bankruptcy Risks

The enforceability of the rights and remedies of the owners of the Bonds and the obligations of the District may become subject to the following: the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors’ rights generally, now or hereafter in effect; usual equitable principles which may limit the specific enforcement under state law of certain remedies: the exercise by the United States of America of the powers delegated to it by the federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations of the police power inherent in the sovereignty of the State of California and its governmental bodies in the interest of servicing a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or state government, if initiated, could

subject the owners of the Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise and consequently may entail risks of delay, limitation, or modification of their rights.

No Obligation to Tax

The obligation of the District to pay debt service on the Bonds does not constitute an obligation of the District for which the District is obligated to levy or pledge any form of taxation or for which the District has levied or pledged any form of taxation, except the Taxes. The obligation of the District to pay debt service on the Bonds does not constitute a debt or indebtedness of the District, the State of California or any of its political subdivisions, within the meaning of any constitutional or statutory debt limitation or restriction.

Change in Law

In addition to the other limitations described herein, the California electorate or Legislature could adopt a constitutional or legislative initiative with the effect of reducing revenues payable to or collected by the District. There is no assurance that the California electorate or Legislature will not at some future time approve additional limitations that could have the effect of reducing the Taxes and Net Revenues and adversely affecting the security of the Bonds.

Loss of Tax Exemption

In order to maintain the exclusion from gross income for federal income tax purposes of the interest on the Bonds, the District has covenanted in the Indenture to comply with each applicable requirement of Section 103 and Sections 141 through 150 of the Internal Revenue Code. The interest due with respect to the Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date of execution and delivery of the Bonds, as a result of acts or omissions of the District in violation of this or other covenants in the Indenture. Should such an event of taxability occur, the Bonds are not subject to prepayment or any increase in interest rates and will remain outstanding until maturity. See “TAX MATTERS” herein.

IRS Audit of Tax-Exempt Bond Issues

The Internal Revenue Service has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the Bonds will be selected for audit by the Internal Revenue Service. It is also possible that the market value of the Bonds might be affected as a result of such an audit of the Bonds (or by an audit of similar bonds).

Secondary Market Risk

There can be no assurance that there will be a secondary market for purchase or sale of the Bonds, and from time to time there may be no market for them, depending upon prevailing market conditions, the financial condition or market position of firms who may make the secondary market and the financial condition of the District.

TAX MATTERS

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California (“Bond Counsel”), under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond

Counsel, interest (and original issue discount) on the Bonds is exempt from State of California personal income tax. Bond Counsel notes that, with respect to corporations, interest on the Bonds may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of such corporations.

In the opinion of Bond Counsel, the difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity of such Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Beneficial Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Beneficial Owner will increase the Beneficial Owner's basis in the applicable Bond. The amount of original issue discount that accrues to the Beneficial Owner of the Bonds is excluded from the gross income of such Beneficial Owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income tax.

Bond Counsel's opinion as to the exclusion from gross income for federal income tax purposes of interest on the Bonds (including any original issue discount) is based upon certain representations of fact and certifications made by the District, the Underwriter and others and is subject to the condition that the District complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code") that must be satisfied subsequent to the issuance of the Bonds to assure that interest on the Bonds (including any original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest on the Bonds (including any original issue discount) to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The District will covenant to comply with all such requirements.

The amount by which a Beneficial Owner's original basis for determining loss on sale or exchange in the applicable Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which must be amortized under Section 171 of the Code; such amortizable bond premium reduces the Beneficial Owner's basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of bond premium may result in a Beneficial Owner realizing a taxable gain when a Bond is sold by the Beneficial Owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the Beneficial Owner. Purchasers of the Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the Bonds will be selected for audit by the IRS. It is also possible that the market value of the Bonds might be affected as a result of such an audit of the Bonds (or by an audit of similar bonds). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Code (or interpretation thereof) subsequent to the issuance of the Bonds to the extent that it adversely affects the exclusion from gross income of interest (and original issue discount) on the Bonds or their market value.

SUBSEQUENT TO THE ISSUANCE OF THE BONDS, THERE MIGHT BE FEDERAL, STATE OR LOCAL STATUTORY CHANGES (OR JUDICIAL OR REGULATORY INTERPRETATIONS OF FEDERAL, STATE OR LOCAL LAW) THAT AFFECT THE FEDERAL, STATE OR LOCAL TAX TREATMENT OF THE INTEREST ON THE BONDS OR THE MARKET VALUE OF THE BONDS. LEGISLATIVE CHANGES HAVE BEEN PROPOSED IN CONGRESS, WHICH, IF ENACTED, WOULD RESULT IN ADDITIONAL FEDERAL INCOME TAX BEING IMPOSED ON CERTAIN OWNERS OF TAX-EXEMPT STATE OR LOCAL OBLIGATIONS, SUCH AS THE BONDS. THE

INTRODUCTION OR ENACTMENT OF ANY OF SUCH CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE BONDS. NO ASSURANCE CAN BE GIVEN THAT, SUBSEQUENT TO THE EXECUTION AND DELIVERY OF THE BONDS, SUCH CHANGES (OR OTHER CHANGES) WILL NOT BE INTRODUCED OR ENACTED OR INTERPRETATIONS WILL NOT OCCUR. BEFORE PURCHASING ANY OF THE BONDS, ALL POTENTIAL PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS REGARDING POSSIBLE STATUTORY CHANGES OR JUDICIAL OR REGULATORY CHANGES OR INTERPRETATIONS, AND THEIR COLLATERAL TAX CONSEQUENCES RELATING TO THE BONDS.

Bond Counsel's opinion may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Indenture and the Tax Certificate relating to the Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the effect on the exclusion from gross income for federal income tax purposes of interest (and original issue discount) with respect to any Bond if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

Although Bond Counsel will render an opinion that interest on the Bonds (including any original issue discount) is excluded from gross income for federal income tax purposes provided that the District continues to comply with certain requirements of the Code, the accrual or receipt of interest on the Bonds (including any original issue discount) may otherwise affect the tax liability of the recipient. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, all potential purchasers should consult their tax advisors before purchasing any of the Bonds.

A copy of the proposed form of opinion of Bond Counsel for the Bonds is attached in "APPENDIX E".

LEGAL MATTERS

Enforceability of Remedies

The remedies available to the Trustee and the Owners of the Bonds upon an event of default under the Indenture or any other document described herein are in many respects dependent upon regulatory and judicial actions which are often subject to discretion and delay. Under existing law and judicial decisions, the remedies provided for under such documents may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Bonds will be qualified to the extent that the enforceability of certain legal rights related to the Indenture are subject to limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by equitable remedies and proceedings generally.

Approval of Legal Proceedings

The legality and enforceability of the Indenture and certain other legal matters are subject to the approval of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, acting as Bond Counsel. See "APPENDIX E" for the proposed form of Bond Counsel's Opinion.

The District has no knowledge of any fact or other information which would indicate that the Indenture is not so enforceable against the District except to the extent such enforcement is limited by principles of equity and by state and federal laws relating to bankruptcy, reorganization, moratorium or creditors' rights generally.

Certain legal matters will be passed on for the District by Artiano, Shinoff & Holtz, LLP, San Diego, California, General Counsel to the District, and by Stradling Yocca Carlson & Rauth, a Professional

Corporation, Newport Beach, California, as Disclosure Counsel to the District. Fees payable to Bond Counsel and Disclosure Counsel are contingent upon the sale and delivery of the Bonds.

Litigation

At any given time, including the present, there are certain claims, disputes and litigation actions that arise in the normal course of the District's activities. Such matters could, if determined adversely to the District, affect the expenditures of the District and in some cases its Revenues. The District will furnish a certificate dated as of the date of delivery of the Bonds that there is not now known to be pending or threatened any litigation restraining or enjoining the execution or delivery of the Indenture, or the sale or delivery of the Bonds or in any manner questioning the proceedings and authority under which the Indenture is to be executed or delivered or the Bonds are to be delivered or affecting the validity thereof or, which if decided adversely to the District would have a material adverse effect on the District's financial condition and its ability to pay the Bonds.

CONCLUDING INFORMATION

Rating on the Bonds

Standard & Poor's has assigned their rating of “__” to the Bonds. Such rating reflects only the views of the rating agency and any desired explanation of the significance of such rating should be obtained from the rating agency. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance the rating will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely by the rating agency, if in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

Underwriting

The Bonds were sold to _____ (the “Underwriter”). The Underwriter is offering the Bonds at the initial offering prices set forth on the inside front cover page hereof. The initial offering prices may be changed from time to time and concessions from the offering prices may be allowed to dealers, banks and others. The Underwriter has purchased the Bonds at a price equal to \$_____, which amount represents the principal amount of the Bonds, plus an original issue premium of \$_____ and less an Underwriter's discount of \$_____. The Underwriter will pay certain of its expenses relating to the offering.

The Municipal Advisor

The material contained in this Official Statement was prepared by the District with the assistance of the Municipal Advisor, who advised the District as to the financial structure and certain other financial matters relating to the Bonds. The information set forth herein has been obtained from sources which are believed to be reliable, but such information is not guaranteed by the Municipal Advisor as to accuracy or completeness, nor has it been independently verified. Fees paid to the Municipal Advisor are contingent upon the sale and delivery of the Bonds.

Continuing Disclosure

The District will covenant to provide annually certain financial information and operating data relating to the District by not later than nine months after the end of the District's fiscal year, each year, commencing March 31, 2017 and to provide the audited General Purpose Financial Statements of the District for the

Fiscal Year ending June 30, 2016 and for each subsequent fiscal year when they are available (together, the “Annual Report”), and to provide notices of the occurrence of certain other enumerated events as described in the Continuing Disclosure Agreement. The Annual Report and notices of material events can be accessed from the Electronic Municipal Market Access Website (“EMMA”) operated by the Municipal Securities Rulemaking Board (www.emma.msrb.org). These covenants will be made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5). The specific nature of the information to be contained in the Annual Report or the notices of material events and certain other terms of the continuing disclosure obligation are summarized in “APPENDIX D - FORM OF CONTINUING DISCLOSURE AGREEMENT.” Failure of the District to provide the required ongoing information may have a negative impact on the value of the Bonds in the secondary market.

References

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the District and the purchasers or Owners of any of the Bonds.

Execution

The execution of this Official Statement has been duly authorized by the Otay Water District.

OTAY WATER DISTRICT

By: _____
Chief Financial Officer

APPENDIX A
SUMMARY OF INDENTURE

[to be provided by Bond Counsel]

APPENDIX B
DISTRICT AUDITED FINANCIAL STATEMENTS

APPENDIX C

ECONOMIC PROFILE FOR THE COUNTY OF SAN DIEGO

Introduction

The County of San Diego (the “County”) is the southernmost major metropolitan area in the State of California. The County covers 4,255 square miles, extending 70 miles along the Pacific Coast from the Mexican border to Orange County, and inland 75 miles to Imperial County. Riverside and Orange Counties form the northern boundary. The County is approximately the size of the State of Connecticut.

The County possesses a diverse economic base consisting of a significant manufacturing presence in the fields of electronics and shipbuilding, a large tourist industry attracted by the favorable climate of the region, and a considerable defense-related presence.

The County is also growing as a major center for culture and education. Over 30 recognized art organizations including the San Diego Opera, the Old Globe Theater productions, the La Jolla Chamber Orchestra, as well as museums and art galleries, are located in the County. Higher education is provided through five two-year colleges and six four-year colleges and universities.

The San Diego Convention Center contains 361,000 square feet of exhibit space and over 100,000 square feet of meeting/banquet rooms. The Convention Center can accommodate events for 30,000-40,000 people.

Population

The following table shows the January 1 State of California Department of Finance estimates of total population in the County of San Diego and the State of California for each year since 2006, and the increase from the previous year.

**TABLE NO. C-1
COUNTY OF SAN DIEGO AND STATE OF CALIFORNIA
POPULATION**

January 1	<u>COUNTY OF SAN DIEGO</u>		<u>STATE OF CALIFORNIA</u>		
	<u>Year</u>	<u>Population</u>	<u>Percentage Change</u>	<u>Population</u>	<u>Percentage Change</u>
	2006	2,976,492		36,116,202	
	2007	2,998,477	0.7%	36,399,676	0.8%
	2008	3,032,689	1.1%	36,704,375	0.8%
	2009	3,064,436	1.0%	36,966,713	0.7%
	2010	3,091,579	0.9%	37,223,900	0.7%
	2011	3,115,810	0.8%	37,427,946	0.5%
	2012	3,128,387	0.4%	37,680,593	0.7%
	2013	3,164,818	1.2%	38,030,609	0.9%
	2014	3,192,457	0.9%	38,357,121	0.9%
	2015	3,227,496	1.1%	38,714,725	0.9%
% Increase Between					
	2006 – 2015		8.4%		7.2%

Source: *State of California, Department of Finance, "E-4 Population Estimates for Cities, Counties, and the State, 2001-2010, with 2000 & 2010 Census Counts"* Sacramento, California, November 2012 and "*E-4 Population Estimates for Cities, Counties and the State, 2011-2015, with 2010 Census Benchmark*" Sacramento, California, May 2015.

Per Capita Personal Income

Per capita personal income information for San Diego County, the State of California and the United States are summarized in the following table.

TABLE NO. C-2
PER CAPITA PERSONAL INCOME ⁽¹⁾
SAN DIEGO COUNTY, STATE OF CALIFORNIA AND UNITED STATES
2010 – 2014

<u>Year</u>	<u>San Diego County</u>	<u>State of California</u>	<u>United States</u>
2010	\$44,563	\$42,282	40,144
2011	47,095	44,749	42,332
2012	48,990	47,505	44,200
2013	49,907	48,434	44,765
2014	51,459	49,985	46,049

⁽¹⁾ For San Diego County, State of California and United States, per capita personal income was computed using Census Bureau midyear population estimates. Estimates for 2010-2014 reflect county population estimates available as of March 2015.

Note: All dollar estimates are in current dollars (not adjusted for inflation).

Last updated: November 19, 2015 - new estimates for 2014; revised estimates for 2010-2013.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

The District is located in the San Diego-Carlsbad Metropolitan Statistical Area (MSA). Six major job categories constitute 82.0% of the work force. They are professional and business services (17.1%), government (16.9%), service producing (14.2%), educational and health services (14.1%), leisure and hospitality (12.7%), and manufacturing (7.0%). The December 2015 unemployment rate in the San Diego-Carlsbad MSA was 4.7%. The State of California December 2015 unemployment rate (unadjusted) was 5.8%.

TABLE NO. C-3
SAN DIEGO-CARLSBAD MSA
WAGE AND SALARY WORKERS BY INDUSTRY ⁽¹⁾
(in \$ thousands)

<u>Industry</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Government	229.8	231.2	233.1	236.6	240.3
Other Services	47.4	48.9	49.9	54.1	51.6
Leisure and Hospitality	155.4	162.2	170.9	178.8	180.9
Educational and Health Services	165.5	177.6	184.0	191.1	201.3
Professional and Business Services	212.3	221.8	230.7	237.2	244.2
Financial Activities	68.8	71.7	71.1	70.6	73.6
Information	24.3	24.6	24.7	24.9	25.8
Transportation, Warehousing and Utilities	26.8	28.5	27.2	27.5	27.8
Service Producing					
Retail Trade	143.3	147.4	152.4	152.4	156.3
Wholesale Trade	42.1	44.4	44.0	44.0	45.3
Manufacturing					
Nondurable Goods	22.5	23.5	24.7	24.7	25.0
Durable Goods	71.4	72.2	71.7	72.7	74.2
Goods Producing					
Construction	55.1	58.3	62.6	63.4	69.2
Mining and Logging	<u>0.4</u>	<u>0.4</u>	<u>0.4</u>	<u>0.4</u>	<u>0.4</u>
Total Nonfarm	1,265.1	1,312.7	1,347.4	1,378.4	1,415.9
Farm	<u>8.8</u>	<u>8.7</u>	<u>8.9</u>	<u>9.6</u>	<u>9.4</u>
Total (all industries)	<u>1,273.9</u>	<u>1,321.4</u>	<u>1,356.3</u>	<u>1,388.0</u>	<u>1,425.3</u>

⁽¹⁾ Annually, as of December.

Note: The unemployment rate is calculated using unrounded data. Data may not add due to rounding.

Source: State of California Employment Development Department, Labor Market Information Division, "Industry Employment & Labor Force - by month March 2014 Benchmark."

Major Employers

The major employers operating within the County as of June 30, 2015 are shown in Table No. C-4.

TABLE NO. C-4
COUNTY OF SAN DIEGO
MAJOR EMPLOYERS

<u>Employer</u>	<u>Number of Employees</u>	<u>Percent of Total Employment</u>
University of California, San Diego	29,287	1.97%
County of San Diego	17,044	1.15%
Sharp Healthcare	16,896	1.14%
Scripps Health	14,644	0.98%
Qualcomm Inc.	13,500	0.91%
Kaiser Permanente	7,535	0.51%
UC San Diego Health	7,229	0.49%
YMCA of San Diego County	5,487	0.37%
Rady Children's Hospital - San Diego	5,122	0.34%
General Atomics Aeronautical Systems	<u>5,088</u>	<u>0.34%</u>
	121,832	8.20%

Source: County of San Diego Comprehensive Annual Financial Report.

Transportation

Excellent surface, sea and air transportation facilities service County residents and businesses. Interstate 5 parallels the coast from Mexico to the Los Angeles area and points north. Interstate 15 runs inland, leading to Riverside-San Bernardino, Las Vegas and Salt Lake City. Interstate 8 runs eastward through the southern United States.

San Diego's International Airport (Lindbergh Field) is located approximately one mile west of the downtown San Diego at the edge of the San Diego Bay. The facilities are owned and maintained by the San Diego Unified Port District and are leased to commercial airlines and other tenants. The airport is the third most active commercial airport in California, served by 18 major airlines. In addition to San Diego International Airport, there are two naval air stations and seven general aviation airports located in the County.

San Diego is the terminus of the Santa Fe Railway's main line from Los Angeles. Amtrak passenger service is available at San Diego with stops at Del Mar and Oceanside in the north county. San Diego's harbor is one of the world's largest natural harbors. The harbor, a busy commercial port, has also become an extremely popular destination for cruise ships. The Port of San Diego is administered by the San Diego Unified Port District, which includes the cities of San Diego, National City, Chula Vista, Imperial Beach and Coronado.

Research and Development

Research and development activity plays an important role in the area's economy. The County is a leading health sciences and biomedical center. Approximately 35,000 persons are engaged in life sciences-related activities in the metropolitan area, with over 28,000 employed directly in health services. In addition to the University of California San Diego, other established research institutions include the Salk Institute for Biological Studies, the Scripps Clinic and Research Foundation, and the Scripps Institution of Oceanography.

Visitor and Convention Activity

An excellent climate, proximity to Mexico, extensive maritime facilities, and such attractions as the San Diego Zoo and Safari Park, Sea World, Cabrillo National Monument, and Palomar Observatory allow San Diego to attract visitor and convention business each year. The development of the 4,600-acre Mission Bay Park at San Diego and the construction of meeting and convention facilities at the San Diego community concourse have contributed to the growth in tourism. The visitor and convention business is expected to continue to increase steadily.

APPENDIX D
FORM OF CONTINUING DISCLOSURE AGREEMENT

[to be provided by Disclosure Counsel]

APPENDIX E
PROPOSED FORM OF LEGAL OPINION OF
BOND COUNSEL

[Closing Date]

Otay Water District
Spring Valley, California

Re: \$_____ Otay Water District 2016 Water Revenue Refunding Bonds

Members of the Board of Directors:

We have acted as Bond Counsel in connection with the issuance by the Otay Water District (the “District”) of its \$_____ 2016 Water Revenue Refunding Bonds, dated the date hereof (the “Bonds”). The Bonds are being issued pursuant to an Indenture of Trust, dated as of May 1, 2016 (the “Indenture”), by and between the District and MUFG Union Bank, N.A., as trustee (the “Trustee”).

The Bonds mature on the dates and in the amounts referenced in the Indenture. The Bonds are dated their date of delivery and bear interest payable on the dates and at the rates per annum referenced in the Indenture. The Bonds are registered in the form set forth in the Indenture.

In rendering the opinions set forth below, we have examined certified copies of the proceedings of the Board of Directors (the “Board”) of the District, and other information submitted to us relative to the issuance and sale of the Bonds. We have examined originals, or copies identified to our satisfaction as being true copies, of the Indenture and the Tax Certificate relating to the Bonds (the “Tax Certificate”), the resolution of the Board adopted on _____, 2016 with respect to the Bonds, opinions of counsel to the District and the Trustee, certificates of the District, the Trustee and others and such other documents, agreements, opinions and matters as we have considered necessary or appropriate under the circumstances to render the opinions set forth herein.

We have assumed the genuineness of all documents and signatures presented to us, the authenticity of documents submitted as originals and the conformity to originals of documents submitted as copies. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions referred to in the preceding paragraphs of this opinion. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause the interest on the Bonds to be included in gross income for federal income tax purposes.

Based on and subject to the foregoing, and in reliance thereon and on all matters of fact as we deem relevant under the circumstances, and upon consideration of applicable laws, we are of the opinion that:

1. The proceedings of the District show lawful authority for the issuance and sale of the Bonds under the laws of the State of California now in force, and the Indenture has been duly authorized, executed and delivered by the District, and, assuming in the case of the Indenture due authorization,

execution and delivery by the Trustee, the Indenture and the Bonds are valid and binding obligations of the District enforceable against the District in accordance with their terms.

2. The obligation of the District to make the payments of principal of and interest on the Bonds from Taxes and Net Revenues (each as defined in the Indenture) is an enforceable obligation of the District and does not constitute an indebtedness of the District in contravention of any constitutional or statutory debt limit or restriction.

3. Under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. It should be noted that, with respect to corporations, such interest (and original issue discount) may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of such corporations.

4. Interest (and original issue discount) on the Bonds is exempt from State of California personal income tax.

5. The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity are to be sold to the public) and the stated redemption price at maturity with respect to such Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bond owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Bond owner will increase the Bond owner's basis in the applicable Bond. In the opinion of Bond Counsel, the amount of original issue discount that accrues to the Bond owner is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals or corporations (as described in paragraph (3) above) and is exempt from State of California personal income tax.

6. The amount by which a Bond owner's original basis for determining loss on sale or exchange in the applicable Bond (generally the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Bond premium which must be amortized under Section 171 of the Internal Revenue Code of 1986, as amended (the "Code"); such amortizable Bond premium reduces the Bond owner's basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Bond premium may result in a Bond owner realizing a taxable gain when a Bond is sold by the owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the owner. Purchasers of the 2016A Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium

The opinions expressed herein as to the exclusion from gross income of interest on the Bonds are based upon certain representations of fact and certifications made by the District and the initial purchaser of the Bonds and are subject to the condition that the District complies with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds to assure that interest (and original issue discount) on the Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The District has covenanted to comply with all such requirements.

The opinions expressed herein may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. Our engagement with respect to the Bonds

terminates on the date of their issuance. The Indenture and the Tax Certificate permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. No opinion is expressed herein as to the effect on the exclusion from gross income of interest (and original issue discount) on the Bonds for federal income tax purposes with respect to any Bond if any such action is taken or omitted based upon the opinion or advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation. Other than expressly stated herein, we express no other opinion regarding tax consequences with respect to the Bonds.

The opinions expressed herein are based upon our analysis and interpretation of existing laws, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. We call attention to the fact that the rights and obligations under the Indenture and the Bonds are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California.

Our opinion is limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement relating to the Bonds or other offering material relating to the Bonds and expressly disclaim any duty to advise the owners of the Bonds with respect to matters contained in the Official Statement.

Respectfully submitted,

APPENDIX F

THE BOOK-ENTRY SYSTEM

The following description of the Depository Trust Company (“DTC”), the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

Neither the issuer of the Bonds (the “Issuer”) nor the trustee, fiscal agent or paying agent appointed with respect to the Bonds (the “Agent”) take any responsibility for the information contained in this Appendix.

No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “Procedures” of DTC to be followed in dealing with DTC Participants are on file with DTC.

1. The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Bonds (the “Securities”). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each issue of the Securities, each in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect

Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. *The information contained on such Internet site is not incorporated herein by reference.*

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC’s records. The ownership interest of each actual purchaser of each Security (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC’s MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds and distributions on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts upon DTC’s receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC’s records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or

registered in “street name,” and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

10. Issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

11. The information in this section concerning DTC and DTC’s book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.

CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement, dated _____, 2016 (the “Disclosure Agreement”) is executed and delivered by the Otay Water District (the “District”) and Harrell & Company Advisors, LLC (the “Dissemination Agent”) in connection with the issuance of \$_____ Otay Water District 2016 Water Revenue Refunding Bonds (the “Bonds”). The Bonds are being issued pursuant to an Indenture of Trust, dated as of April 1, 2016 (the “Indenture”), by and between MUFG Union Bank, N.A., as trustee (the “Trustee”) and the District. The District covenants as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the District for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule.

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean the Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“Beneficial Owner” shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

“Disclosure Representative” shall mean the General Manager of the District and the Chief Financial Officer of the District, or their designee, or such other officer or employee as the District shall designate in writing from time to time.

“Dissemination Agent” shall mean Harrell & Company Advisors, LLC, or any successor Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation.

“EMMA” shall mean the Electronic Municipal Market Access system of the MSRB.

“Holder” shall mean the registered owner of any Bond.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

“MSRB” shall mean the Municipal Securities Rulemaking Board.

“Official Statement” shall mean the Official Statement relating to the Bonds, dated May 16, 2016.

“Participating Underwriter” shall mean the original underwriter of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

“Repository” shall mean the EMMA system of the MSRB or any other entity designated under the Rule as the repository for filings made pursuant to the Rule.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State” shall mean the State of California.

SECTION 3. Provision of Annual Reports.

(a) The District shall, or, upon delivery of the Annual Report to the Dissemination Agent, shall cause the Dissemination Agent to, not later than March 31 of each year, commencing March 31, 2017, provide to the Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report shall be provided to the Repository in an electronic format as prescribed by the Repository and shall be accompanied by identifying information as prescribed by the Repository. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the District’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) Not later than fifteen (15) business days prior to the date specified in subsection (a) for providing the Annual Report to the Repository, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If the District is unable to provide to the Repository an Annual Report by the date required in subsection (a), the Dissemination Agent shall send a notice to the Repository in the form provided by the Repository.

(c) The Dissemination Agent shall:

- (i) confirm the electronic filing requirements of the Repository for the Annual Reports; and
- (ii) if the Dissemination Agent is other than the District, file a report with the District certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided to the Repository.

(d) Notwithstanding any other provision of this Disclosure Agreement, all filings shall be made in accordance with the MSRB’s EMMA system, or in another manner approved under the Rule.

SECTION 4. Content of Annual Reports. The District’s Annual Report shall contain or include by reference the following:

(a) The District’s audited financial statements, prepared in accordance with generally accepted auditing standards for municipalities in the State of California. If the District’s audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) To the extent not contained in the audited financial statements filed pursuant to the preceding subsection (a) by the date required by Section 4 hereof, updates of Tables 1 through 4 and 8 through 11 under the caption “THE WATER SYSTEM.”

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which have been submitted to the Repository or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB. The District shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the District shall give, or cause the Dissemination Agent to give, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not more than ten (10) business days after the event:

1. principal and interest payment delinquencies;
2. unscheduled draws on debt service reserves reflecting financial difficulties;
3. unscheduled draws on credit enhancements reflecting financial difficulties;
4. substitution of credit or liquidity providers, or their failure to perform;
5. adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability or of a Notice of Proposed Issue (IRS Form 5701-TEB);
6. tender offers;
7. defeasances;
8. ratings changes; and
9. bankruptcy, insolvency, receivership or similar proceedings.

Note: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) Pursuant to the provisions of this Section 5, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. unless described in paragraph 5(a)(5) above, notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;

2. the consummation of a merger, consolidation or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms;
3. appointment of a successor or additional trustee or the change of the name of a trustee;
4. nonpayment related defaults;
5. modifications to the rights of Owners of the Bonds;
6. notices of redemption; and
7. release, substitution or sale of property securing repayment of the Bonds.

(c) Whenever the District obtains knowledge of the occurrence of a Listed Event under 5(b) above, the District shall as soon as possible determine if such event would be material under applicable federal securities laws.

(d) If the District determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, within 10 business days after the event, the District shall file a notice of such occurrence with the Repository, or provide the notice to the Dissemination Agent for filing with the Repository. If the Dissemination Agent has been instructed by the District to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Repository. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(7) and (b)(6) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Trust Agreement.

(e) The District hereby agrees that the undertaking set forth in this Disclosure Agreement is the responsibility of the District and that the Dissemination Agent shall not be responsible for determining whether the District's instructions to the Dissemination Agent under this Section 5 comply with the requirements of the Rule.

(f) Any of the filings required to be made under this Section 5 shall be made in accordance with the MSRB's EMMA system or in another manner approved under the Rule.

SECTION 6. Termination of Reporting Obligation. The District's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 7. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the form or content of any notice or report prepared by the District pursuant to this Disclosure Agreement. The Dissemination Agent may resign by providing thirty days written notice to the District and the Trustee. The

Dissemination Agent shall not be responsible for the content of any report or notice prepared by the District and shall have no duty to review any information provided to it by the District. The Dissemination Agent shall have no duty to prepare any information report nor shall the Dissemination Agent be responsible for filing any report not provided to it by the District in a timely manner and in a form suitable for filing.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the District may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, provided that, in the opinion of nationally recognized bond counsel, such amendment or waiver is permitted by the Rule; provided, the Dissemination Agent shall have first consented to any amendment that modifies or increases its duties or obligations hereunder. In the event of any amendment or waiver of a provision of this Disclosure Agreement, the District shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the District. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(c), and (ii) the Annual Report for the year in which the change is made shall present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the District shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the District to comply with any provision of this Disclosure Agreement, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the District or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

No Bondholder or Beneficial Owner may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the District satisfactory written evidence of such Holder's or Beneficial Owner's status as such, and a written notice of and request to cure such failure, and the District shall have refused to comply therewith within a reasonable time.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the District agrees, to the extent permitted by law, to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it

may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorney's fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's, its officers', directors', employees' and agents' negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the District for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. In performing its duties hereunder, the Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the District, the Holders, or any other party. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 12. Notices. Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows:

District:	Otay Water District 2554 Sweetwater Springs Boulevard Spring Valley, CA 91978 Attention: General Manager
Dissemination Agent:	Harrell & Company Advisors, LLC 333 City Boulevard West, Suite 1430 Orange, CA 92868 Attn: Suzanne Harrell

SECTION 13. Beneficiaries. This Disclosure Agreement solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 14. Signature. This Disclosure Agreement has been executed by the undersigned on the date hereof, and such signature binds the District to the undertaking herein provided.

OTAY WATER DISTRICT

By: _____
Its: Chief Financial Officer

HARRELL & COMPANY ADVISORS, LLC, as
Dissemination Agent

By: _____
Its: Authorized Officer

INDENTURE OF TRUST

Dated as of April 1, 2016

By and between

**MUFG UNION BANK, N.A.,
as Trustee**

and the

OTAY WATER DISTRICT

Relating to

\$ _____

**OTAY WATER DISTRICT
2016 WATER REVENUE REFUNDING BONDS**

TABLE OF CONTENTS

Page

ARTICLE I

DEFINITIONS; CONTENT OF CERTIFICATES AND OPINIONS

Section 1.01.	Definitions	3
Section 1.02.	Content of Certificates and Opinions	14
Section 1.03.	Interpretation.....	14

ARTICLE II

THE 2016 BONDS

Section 2.01.	Authorization of 2016 Bonds.....	15
Section 2.02.	Terms of the 2016 Bonds.....	15
Section 2.03.	Transfer of 2016 Bonds	16
Section 2.04.	Exchange of 2016 Bonds	16
Section 2.05.	Registration Books.....	16
Section 2.06.	Form and Execution of 2016 Bonds	16
Section 2.07.	2016 Bonds Mutilated, Lost, Destroyed or Stolen.....	17
Section 2.08.	Book Entry System.....	18

ARTICLE III

ISSUANCE OF 2016 BONDS; APPLICATION OF PROCEEDS

Section 3.01.	Issuance of the 2016 Bonds	20
Section 3.02.	Application of Proceeds of the 2016 Bonds and Certain Other Moneys.....	20
Section 3.03.	Establishment and Application of Costs of Issuance Fund.....	20
Section 3.04.	Validity of 2016 Bonds.....	21

ARTICLE IV

REDEMPTION OF 2016 BONDS

Section 4.01.	Optional Redemption.....	21
Section 4.02.	Mandatory Sinking Fund Redemption.....	21
Section 4.03.	Notice of Redemption; Rescission.....	21
Section 4.04.	Selection of 2016 Bonds for Redemption.....	22
Section 4.05.	Partial Redemption of 2016 Bonds.....	22
Section 4.06.	Effect of Notice of Redemption.....	22

ARTICLE V

REVENUES, FUNDS AND ACCOUNTS; PAYMENT OF PRINCIPAL AND INTEREST

Section 5.01.	Pledge and Assignment; Revenue Fund	23
Section 5.02.	Allocation of Revenues and Taxes	24
Section 5.03.	[Reserved.].....	25

TABLE OF CONTENTS

(continued)

Page

Section 5.04.	Application of Interest Account.....	25
Section 5.05.	Application of Principal Account	25
Section 5.06.	Investments	25
Section 5.07.	Rebate Fund.....	26
Section 5.08.	Application of Funds and Accounts When No 2016 Bonds are Outstanding	27

ARTICLE VI

PARTICULAR COVENANTS

Section 6.01.	Punctual Payment	27
Section 6.02.	Extension of Payment of 2016 Bonds	28
Section 6.03.	Against Encumbrances	28
Section 6.04.	Power to Issue 2016 Bonds and Make Pledge and Assignment	28
Section 6.05.	Accounting Records and Financial Statements	28
Section 6.06.	Tax Covenants	28
Section 6.07.	Waiver of Laws.....	29
Section 6.08.	Further Assurances	29
Section 6.09.	Observance of Laws and Regulations.....	30
Section 6.10.	Compliance with Contracts.....	30
Section 6.11.	Prosecution and Defense of Suits	30
Section 6.12.	Continuing Disclosure	30
Section 6.13.	Additional Contracts and Bonds.....	30
Section 6.14.	Against Sale or Other Disposition of Property	31
Section 6.15.	Against Competitive Facilities	31
Section 6.16.	Maintenance and Operation of the Water System	31
Section 6.17.	Payment of Claims.....	32
Section 6.18.	Insurance.....	32
Section 6.19.	Payment of Taxes and Compliance with Governmental Regulations	32
Section 6.20.	Amount of Rates and Charges	33
Section 6.21.	Collection of Rates and Charges.....	33
Section 6.22.	Eminent Domain Proceeds	33
Section 6.23.	Enforcement of Contracts.....	33

ARTICLE VII

EVENTS OF DEFAULT AND REMEDIES OF 2016 BOND OWNERS

Section 7.01.	Events of Default	34
Section 7.02.	Remedies Upon Event of Default	34
Section 7.03.	Application of Revenues and Other Funds After Default.....	35
Section 7.04.	Trustee to Represent 2016 Bond Owners	36
Section 7.05.	2016 Bond Owners' Direction of Proceedings.....	36
Section 7.06.	Suit by Owners	37
Section 7.07.	Absolute Obligation of the District.....	37
Section 7.08.	Remedies Not Exclusive.....	37
Section 7.09.	No Waiver of Default	37

TABLE OF CONTENTS

(continued)

Page

ARTICLE VIII

THE TRUSTEE

Section 8.01.	Duties, Immunities and Liabilities of Trustee	38
Section 8.02.	Merger or Consolidation.....	39
Section 8.03.	Liability of Trustee	39
Section 8.04.	Right to Rely on Documents.....	41
Section 8.05.	Preservation and Inspection of Documents	42
Section 8.06.	Compensation and Indemnification	42

ARTICLE IX

MODIFICATION OR AMENDMENT OF THE INDENTURE

Section 9.01.	Amendments Permitted	42
Section 9.02.	Effect of Supplemental Indenture	44
Section 9.03.	Endorsement of 2016 Bonds; Preparation of New 2016 Bonds	44
Section 9.04.	Amendment of Particular 2016 Bonds	44

ARTICLE X

DEFEASANCE

Section 10.01.	Discharge of Indenture	44
Section 10.02.	Discharge of Liability on 2016 Bonds.....	45
Section 10.03.	Deposit of Money or Securities with Trustee	45
Section 10.04.	Payment of 2016 Bonds After Discharge of Indenture.....	46

ARTICLE XI

MISCELLANEOUS

Section 11.01.	Liability of District Limited to Revenues	46
Section 11.02.	Successor Is Deemed Included in All References to Predecessor	46
Section 11.03.	Limitation of Rights to Parties and 2016 Bond Owners.....	46
Section 11.04.	Waiver of Notice; Requirement of Mailed Notice.....	46
Section 11.05.	Destruction of 2016 Bonds	47
Section 11.06.	Severability of Invalid Provisions	47
Section 11.07.	Notices	47
Section 11.08.	Evidence of Rights of 2016 Bond Owners	47
Section 11.09.	Disqualified 2016 Bonds	48
Section 11.10.	Money Held for Particular 2016 Bonds.....	48
Section 11.11.	Funds and Accounts.....	48
Section 11.12.	Waiver of Personal Liability.....	48
Section 11.13.	Execution in Several Counterparts	48
Section 11.14.	Choice of Law.....	49

TABLE OF CONTENTS
(continued)

	<i>Page</i>
Signatures	S-1
Exhibit A Form of 2016 Bond.....	A-1

INDENTURE OF TRUST

THIS INDENTURE OF TRUST, made and entered into and dated as of April 1, 2016 (the “Indenture”), by and between OTAY WATER DISTRICT, a municipal water district duly organized and existing under the laws of the State of California (the “District”), and MUFJ Union Bank, N.A., a national banking association duly organized and existing under the laws of the United States of America, as trustee hereunder (the “Trustee”);

W I T N E S S E T H:

WHEREAS, the District has determined that it is in the best interest of the public to refund all of the outstanding Otay Water District Revenue Certificates of Participation (2007 Water System Project) Series 2007 (the “2007 Certificates”); and

WHEREAS, the District is authorized by Article 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California, including but not limited to Section 53583, to issue bonds for the purpose of refunding any evidences of indebtedness of the District; and

WHEREAS, in order to provide for the authentication and delivery of water revenue refunding bonds (the “2016 Bonds”), to establish and declare the terms and conditions upon which such 2016 Bonds are to be issued and secured and to secure the payment of the principal thereof and interest thereon, the District has authorized the execution and delivery of the Indenture; and

WHEREAS, the District has determined that all acts and proceedings required by law necessary to make the 2016 Bonds, when executed by the District, authenticated and delivered by the Trustee, and duly issued, the valid, binding and legal special obligations of the District, and to constitute the Indenture a valid and binding agreement for the uses and purposes herein set forth in accordance with its terms, have been done and taken, and the execution and delivery of the Indenture have been in all respects duly authorized;

NOW, THEREFORE, THE INDENTURE WITNESSETH:

GRANTING CLAUSES

The District, in consideration of the premises and the acceptance by the Trustee of the trusts hereby created and of the mutual covenants herein contained and of the purchase and acceptance of the 2016 Bonds by the owners thereof, and for other valuable considerations, the receipt whereof is hereby acknowledged, in order to secure the payment of the principal of and the interest on all 2016 Bonds at any time issued and Outstanding under the Indenture, according to their tenor, and to secure the performance and observance of all the covenants and conditions therein and herein set forth, does hereby assign and pledge unto, and grant a security interest in, the following (the “Trust Estate”) to the Trustee, and its successors in trust and assigns forever, for the securing of the performance of the obligations of the District to the 2016 Bond Owners hereinafter set forth:

GRANTING CLAUSE FIRST

All right, title and interest of the District in and to the Revenues (as defined herein) and Taxes (as defined herein) on a parity with certain existing Contracts (as defined herein), including, but without limiting the generality of the foregoing, the present and continuing right to make claim for, collect, receive and receipt for any Revenues payable to or receivable by the District under the Constitution of the State, the Government Code of the State of California and the Indenture and any other applicable laws of the State or otherwise, to bring actions and proceedings thereunder for the enforcement thereof, and to do any and all things which the District is or may become entitled to do thereunder, subject to the terms hereof.

GRANTING CLAUSE SECOND

All moneys and securities held in funds and accounts of the Indenture, except amounts held in the Rebate Fund, and all other rights of every name and nature from time to time herein or hereafter by delivery or by writing of any kind pledged, assigned or transferred as and for additional security hereunder to the Trustee by the District or by anyone on its behalf, or with its written consent, and to hold and apply the same, subject to the terms hereof.

TO HAVE AND TO HOLD all and singular the Trust Estate, whether now owned or hereafter acquired, unto the Trustee and its respective successors in trust and assigns forever for the benefit of the Owners and such pledge shall constitute a lien on and security interest in such Trust Estate;

IN TRUST NEVERTHELESS, upon the terms and trusts herein set forth for the equal and proportionate benefit, security and protection of all present and future owners of the 2016 Bonds issued under and secured by the Indenture without privilege, priority or distinction as to the lien or otherwise of any of the 2016 Bonds over any of the other 2016 Bonds;

PROVIDED, HOWEVER, that if the District, its successors or assigns shall well and truly pay, or cause to be paid, the principal of and interest on the 2016 Bonds due or to become due thereon, at the times and in the manner provided in the 2016 Bonds according to the true intent and meaning thereof, and shall well and truly keep, perform and observe all the covenants and conditions pursuant to the terms of the Indenture to be kept, performed and observed by it, and shall pay or cause to be paid to Trustee all sums of money due or to become due in accordance with the terms and provisions hereof, then upon such final payments or deposits as herein provided, the Indenture and the rights hereby granted shall cease, terminate and be void; otherwise the Indenture shall remain in full force and effect.

THE INDENTURE FURTHER WITNESSETH, and it is expressly declared, that all 2016 Bonds issued and secured hereunder are to be issued, authenticated and delivered, and all sold property, rights and interests, including, without limitation, the Revenues and Taxes, hereby assigned and pledged, are to be dealt with and disposed of, under, upon and subject to the terms, conditions, stipulations, covenants, agreements, trusts, uses and purposes hereinafter expressed, and the District has agreed and covenanted and does hereby covenant and agree with the Trustee, for the benefit of the respective Owners from time to time of the 2016 Bonds, as follows:

ARTICLE I

DEFINITIONS; CONTENT OF CERTIFICATES AND OPINIONS

Section 1.01. Definitions. Unless the context otherwise requires, the terms defined in this Section 1.01 shall, for all purposes of the Indenture and of any indenture supplemental hereto and of any certificate, opinion or other document herein mentioned, have the meanings herein specified, to be equally applicable to both the singular and plural forms of any of the terms herein defined.

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

Authorized Representative. The term "Authorized Representative" means, with respect to the District, its Board President, Board Vice President, Board Treasurer, General Manager, Chief Financial Officer or any other person designated as an Authorized Representative of the District by a Certificate of the District signed by its Board President, Board Vice President, Board Treasurer, General Manager or Chief Financial Officer and filed with the Trustee.

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

Bond Proceeds Fund. The term "Bond Proceeds Fund" means the fund by that name established pursuant to Section 3.02 hereof.

Bonds. The term "Bonds" means all revenue bonds or notes of the District authorized, executed, issued and delivered by the District, the payments of which are payable from Net Revenues on a parity with the 2016 Bonds and which are secured by a pledge of and lien on Revenues as described in Section 5.01 hereof.

Bond Year. The term "Bond Year" means the period beginning on the date of issuance of the 2016 Bonds and ending on September 1, 2016, and each successive one year or, during the last period prior to maturity, shorter period thereafter until there are no Outstanding 2016 Bonds.

Business Day. The term "Business Day" means: (i) a day which is not a Saturday, Sunday or legal holiday on which banking institutions in the State, or in any other state in which the Office of the Trustee is located, are closed; or (ii) a day on which the New York Stock Exchange is not closed.

Certificate; Direction; Request; Requisition. The terms "Certificate," "Direction," "Request" and "Requisition" of the District mean a written certificate, direction, request or requisition signed in the name of the District by its Authorized Representative. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument. If and to the extent required by Section 1.02, each such instrument shall include the statements provided for in Section 1.02.

Closing Date. The term "Closing Date" means the date on which the 2016 Bonds are delivered to the original purchaser thereof.

Code. The term “Code” means the Internal Revenue Code of 1986, as amended.

Continuing Disclosure Agreement. The term “Continuing Disclosure Agreement” means the Continuing Disclosure Agreement, dated the Closing Date, by and between the District and Harrell & Company Advisors, LLC, as Dissemination Agent, as originally executed or as it may be from time to time amended or supplemented in accordance with its terms.

Contracts. The term “Contracts” means all contracts of the District previously or hereafter authorized and executed by the District, the payments under which are payable from Net Revenues on a parity with the 2016 Bonds and which are secured by a pledge and lien on Revenues as described in Section 5.01 hereof, including the 1996 Installment Sale Agreement, the 2010 Installment Purchase Agreement and the 2013 Installment Sale Agreement; and excluding contracts entered into for operation and maintenance of the Water System.

Corporation. The term “Corporation” means the Otay Service Corporation, a nonprofit public benefit corporation duly organized and existing under and by virtue of the laws of the State of California.

Costs of Issuance. The term “Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the District and related to the authorization, issuance, sale and delivery of the 2016 Bonds, including but not limited to costs of preparation and reproduction of documents, printing expenses, filing and recording fees, initial fees and charges of the Trustee and counsel to the Trustee, legal fees and charges, fees and disbursements of consultants and professionals, rating agency fees, title insurance premiums, letter of credit fees and bond insurance premiums (if any), fees and charges for preparation, execution and safekeeping of the 2016 Bonds and any other cost, charge or fee in connection with the original issuance of the 2016 Bonds.

Costs of Issuance Fund. The term “Costs of Issuance Fund” means the fund by that name established pursuant to Section 3.03.

Debt Service. The term “Debt Service” means, for any Fiscal Year, the sum of:

(1) the interest accruing during such Fiscal Year on all outstanding Bonds, assuming that all outstanding serial Bonds are retired as scheduled and that all outstanding term Bonds are prepaid or paid from sinking fund payments as scheduled (except to the extent that such interest is capitalized);

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

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

(4) that portion of the installment payments required to be made during such Fiscal Year or during the next succeeding Fiscal Year under all Contracts, in each case

computed as if such installment payments were deemed to accrue daily during such Fiscal Year in equal amounts (except to the extent that the interest portion of such installment payments is capitalized);

less the earnings derived from investment of moneys on deposit in any debt service reserve fund, and any construction fund created with respect to any Contracts or Bonds to the extent such earnings are deposited in a debt service fund;

provided that, as to any such Bonds or installment payments due under any Contracts bearing or comprising interest at other than a fixed rate, the rate of interest used to calculate Debt Service shall be one hundred ten percent (110%) of the greater of:

(i) the then current variable interest rate borne by such Bonds or Contracts plus 2%, and

(ii) the highest variable rate borne over the preceding 12 months by outstanding variable rate debt issued by the District or, if no such variable rate debt is at the time outstanding, by variable rate debt of which the interest rate is computed by reference to an index comparable to that to be utilized in determining the interest rate for the debt then proposed to be issued;

provided further that if any series or issue of such Bonds or installment payments due under any Contracts have twenty-five percent (25%) or more of the aggregate principal amount of such series or issue due in any one year, Debt Service shall be determined for the Fiscal Year of determination as if the principal of and interest on such series or issue of such Bonds or installment payments were being paid from the date of incurrence thereof in substantially equal annual amounts over a period of thirty (30) years from the date of calculation; and

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

provided further that Debt Service shall be reduced by the amount of investment earnings credited to any debt service fund created with respect to Contracts or Bonds; and

provided further that, if the Bonds or Contracts constitute Paired Obligations, the interest rate on such Bonds or Contracts shall be the resulting linked rate or the effective fixed interest rate to be paid by the District with respect to such paired obligations.

provided further that, effective when the 1996 Certificates and the 2007 Certificates are no longer Outstanding, the calculation of Debt Service payable by the District on Bonds or Contracts shall be reduced by the amount of Interest Subsidy Payments the District is entitled to receive during such twelve-month period.

Depository; DTC. The term “Depository” or “DTC” means The Depository Trust Company, New York, New York, a limited purpose trust company organized under the laws of the State of New York, in its capacity as securities depository for the 2016 Bonds.

District. The term “District” means Otay Water District, a municipal water district duly organized and existing under and by virtue of the laws of the State.

Escrow Agent. The term “Escrow Agent” means MUFG Union Bank, N.A., as escrow agent pursuant to the terms of the Escrow Agreement, or its successor thereunder.

Escrow Agreement. The term “Escrow Agreement” means the Escrow Agreement, dated as of April 1, 2016, by and between the District and the Escrow Agent, as originally executed or as it may from time to time be amended or supplemented in accordance with its terms.

Event of Default. The term “Event of Default” means any of the events specified in Section 7.01.

Federal Securities. The term “Federal Securities” means any direct, noncallable general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), or noncallable obligations the timely payment of principal of and interest on which are fully and unconditionally guaranteed by the United States of America.

Fiscal Year. The term “Fiscal Year” means the twelve month period beginning on July 1 of each year and ending on the next succeeding June 30, both dates inclusive, or any other twelve month period hereafter selected and designated as the official fiscal year period of the District.

Indenture. The term “Indenture” means this Indenture of Trust, dated as of April 1, 2016, by and between the District and the Trustee, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture.

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

Independent Financial Consultant. The term “Independent Financial Consultant” means a financial consultant or firm of such consultants appointed by the District, which may, for purposes of the certification described in the definition of “Paired Obligations” be an interest rate swap adviser, and who, or each of whom: (1) is in fact independent and not under domination of the District; (2) does not have any substantial interest, direct or indirect, with the District; and (3) is not connected with the District as an officer or employee thereof, but who may be regularly retained to make reports thereto.

Information Services. The term “Information Services” means the Municipal Securities Rulemaking Board; or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other services providing information with respect to called bonds as the District may specify in a certificate to the Trustee and as the Trustee may select.

Initial Rating Requirement. The term “Initial Rating Requirement” means the rating requirement described in Section 11.16(a).

Interest Account. The term “Interest Account” means the account by that name in the Payment Fund established pursuant to Section 5.02.

Interest Payment Date. The term “Interest Payment Date” means September 1, 2016 and each March 1 and September 1 thereafter.

Interest Subsidy Payment. The term “Interest Subsidy Payments” means cash subsidy payments entitled to be received by the District from the United States Treasury with respect to the 2010B Bonds and any Bonds issued and Contracts executed by the District, including, but not limited to, “Build America Bonds” issued as contemplated by the American Recovery and Reinvestment Act of 2009.

Investment Agreement. The term “Investment Agreement” means an investment agreement by a provider, supported by appropriate opinions of counsel, provided that, without limiting the foregoing, any such Investment Agreement shall: (i) be from a provider rated by S&P or Moody’s at “A-” or “A3”, respectively, or above; (ii) require the District to terminate such agreement and immediately reinvest the proceeds thereof in other Permitted Investments if the rating assigned to the provider by S&P or Moody’s falls to “BBB+” or “Baa1”, respectively, or below; and (iii) expressly permit the withdrawal, without penalty, of any amounts necessary at any time to fund any deficiencies on account of debt service requirements with respect to the 2016 Bonds, together with such amendments as may be approved by the District and the Trustee from time to time.

Law. The term “Law” means the sections of the Water Code of the State of California applicable to municipal water districts, including the sections commencing with Section 71000, and all laws amendatory thereof or supplemental thereto.

Letter of Representations. The term “Letter of Representations” means the letter of the District delivered to and accepted by the Depository on or prior to delivery of the 2016 Bonds as book entry bonds setting forth the basis on which the Depository serves as depository for such book entry bonds, as originally executed or as it may be supplemented or revised or replaced by a letter from the District delivered to and accepted by the Depository.

Moody’s. The term “Moody’s” means Moody’s Investors Service, Inc. or any successor thereto.

Net Proceeds. The term “Net Proceeds” means, when used with respect to any casualty insurance or condemnation award, the proceeds from such insurance or condemnation award remaining after payment of all expenses (including attorneys’ fees) incurred in the collection of such proceeds.

Net Revenues. The term “Net Revenues” means, for any Fiscal Year, the Revenues for such Fiscal Year less the Operation and Maintenance Costs for such Fiscal Year. When held by the Trustee in any funds or accounts established hereunder, Net Revenues shall include all interest or gain derived from the investment of amounts in any of such funds or accounts.

1996 Certificates. The term “1996 Certificates” means the Otay Water District \$15,400,000 Variable Rate Demand Certificates of Participation (1996 Capital Projects) issued pursuant to the 1996 Installment Sale Agreement.

1996 Installment Sale Agreement. The term “1996 Installment Sale Agreement” means the Installment Sale Agreement, dated as of June 1, 1996, by and between the District and the Corporation, as amended by the Second Amendment to Installment Sale Agreement, dated as of June 1, 2011, and as further amended from time to time.

Nominee. The term “Nominee” means the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to Section 2.08 hereof.

Office. The term “Office” means with respect to the Trustee, the principal corporate trust office of the Trustee in Los Angeles, California, or such other or additional offices as may be specified in writing by the Trustee to the District, except that with respect to presentation of 2016 Bonds for payment or for registration of transfer and exchange such term means the office or agency of the Trustee at which, at any particular time, its corporate trust agency business shall be conducted.

Operation and Maintenance Costs. The term “Operation and Maintenance Costs” means (i) costs spent or incurred for maintenance and operation of the Water System calculated in accordance with generally accepted accounting principles, including (among other things) the reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Water System in good repair and working order, and including administrative costs of the District that are charged directly or apportioned to the Water System, including but not limited to salaries and wages of employees, payments to the Public Employees Retirement System, overhead, insurance, taxes (if any), fees of auditors, accountants, attorneys or engineers and insurance premiums, and including all other reasonable and necessary costs of the District or charges (other than Debt Service payments) required to be paid by it to comply with the terms of the Indenture or any Contract or of any resolution or indenture authorizing the issuance of any Bonds or of such Bonds; and (ii) costs spent or incurred in the purchase of water for the Water System; but excluding in all cases depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles or other bookkeeping entries of a similar nature and all capital charges.

Opinion of Counsel. The term “Opinion of Counsel” means a written opinion of counsel (including but not limited to counsel to the District) selected by the District. If and to the extent required by the provisions of Section 1.02, each Opinion of Counsel shall include the statements provided for in Section 1.02.

Outstanding. The term “Outstanding,” when used as of any particular time with reference to 2016 Bonds, means (subject to the provisions of Section 11.09) all 2016 Bonds theretofore or thereupon being authenticated and delivered by the Trustee under the Indenture except: (i) 2016 Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (ii) 2016 Bonds with respect to which all liability of the District shall have been discharged in accordance with Section 10.02, including 2016 Bonds (or portions thereof) described in Section 11.09; and (iii) 2016 Bonds for the transfer or exchange of or in lieu of or in substitution for which other 2016 Bonds shall have been authenticated and delivered by the Trustee pursuant to the Indenture.

Owner; 2016 Bond Owner. The term “Owner” or “2016 Bond Owner,” whenever used herein with respect to a 2016 Bond, means the person in whose name the ownership of such 2016 Bond is registered on the Registration Books.

Paired Obligations. The term “Paired Obligations” means any Bond or Contract (or portion thereof) designated as Paired Obligations in the resolution, indenture or other document authorizing the issuance or execution and delivery thereof, which are simultaneously issued or executed and delivered: (i) the principal of which is of equal amount maturing and to be redeemed or prepaid (or cancelled after acquisition thereof) on the same dates and in the same amounts; and (ii) the interest rates which, taken together, result in an irrevocably fixed interest rate obligation of the District for the

term of such Bond or Contract, as certified by an Independent Financial Consultant in writing, and which comply with the provisions of Section 11.16 hereof.

Participants. The term “Participants” means those broker-dealers, banks and other financial institutions from time to time for which the Depository holds book entry certificates as securities depository.

Payment Fund. The term “Payment Fund” means the fund by that name established pursuant to Section 5.02.

Permitted Investments. The term “Permitted Investments” means, for all purposes other than defeasing investments in a refunding escrow account, any of the following to the extent permitted by law:

(a) Direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.

(b) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):

- (i) U.S. Export-Import Bank
Direct obligations or fully guaranteed Bonds of beneficial ownership
- (ii) Farmers Home Administration (FmHA)
Bonds of beneficial ownership
- (iii) Federal Financing Bank
- (iv) Federal Housing Administration Debentures (FHA)
- (v) General Services Administration
Participation Bonds
- (vi) Government National Mortgage Association (GNMA or “Ginnie Mae”)
GNMA-guaranteed mortgage-backed bonds
GNMA-guaranteed pass-through obligations
- (vii) U.S. Maritime Administration
Guaranteed Title XI financing (qualified under the Ship Financing Act of 1972)
- (viii) U.S. Department of Housing and Urban Development (HUD)
Project Notes
Local Authority Bonds

(c) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself):

- (i) Federal Home Loan Bank System
Senior debt obligations
- (ii) Federal Home Loan Mortgage Authority (FHLMC or “Freddie Mac”)
Participation Bonds
Senior debt obligations
- (iii) Federal National Mortgage Association (FNMA or “Fannie Mae”)
Mortgage-backed securities and senior debt obligations (excluding stripped mortgage securities which are valued greater than par on the portion of unpaid principal)
- (iv) Resolution Funding Corp (REFCORP)
The interest only component of REFCORP strips which have been stripped by request to the Federal Reserve Bank of New York
- (v) Student Loan Marketing Association (SLMA)
- (vi) Federal Farm Credit Bank (FFCB)

(d) Money market funds registered under the Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, and having a rating by S&P of AAAM-G, AAAM, or better (including those of the Trustee and its affiliates).

(e) Certificates of deposit secured at all times by collateral described in (a) and/or (b) above and having a maturity of one year or less. Such Certificates must be issued by commercial banks, savings and loan associations or mutual savings banks whose short-term obligations are rated “A-1+” by S&P and “Prime-1” by Moody’s. The collateral must be held by a third party and the Owners must have a perfected first security interest in the collateral.

(f) Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC or collateralized by Permitted Investments described in clauses (a) or (b) of the definition (including those of the Trustee and its affiliates) (including those of the Trustee and its affiliates).

(g) Investment Agreements, including guaranteed investment contracts with financial entities whose long-term debt obligations are rated in one of the two highest long-term rating categories by Moody’s and S&P.

(h) Commercial paper rated, at the time of purchase, “Prime 1” by Moody’s and “A 1+” or better by S&P and which matures no later than 270 calendar days after the date of purchase.

(i) Municipal obligations rated “Aaa/AAA” or general obligations of states with a rating of A2/A or higher by both Moody’s and S&P.

(j) Pre-refunded municipal obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

(A) which are rated, based on an irrevocable escrow account or fund (the “escrow”), in the highest rating category of Moody’s or S&P or any successors thereto; or

(B) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph (b) above, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate.

(k) The Local Agency Investment Fund of the State, created pursuant to Section 16429.1 of the California Government Code, to the extent the Trustee or the District is authorized to register such investment in its name.

Principal Account. The term “Principal Account” means the account by that name in the Payment Fund established pursuant to Section 5.02.

Rating. The term “Rating” means any currently effective rating on the 2016 Bonds issued by a Rating Agency.

Rating Agencies. The term “Rating Agencies” means S&P and Moody’s.

Rebate Fund. The term “Rebate Fund” means the fund by that name established pursuant to Section 5.08.

Record Date. The term “Record Date” means, with respect to any Interest Payment Date, the fifteenth (15th) day of the calendar month preceding such Interest Payment Date, whether or not such day is a Business Day.

Refunded 2007 Certificates. The term “Refunded 2007 Certificates” has the meaning set forth in the Escrow Agreement.

Registration Books. The term “Registration Books” means the records maintained by the Trustee for the registration of ownership and registration of transfer of the 2016 Bonds pursuant to Section 2.05.

Responsible Officer of the Trustee. The term “Responsible Officer of the Trustee” means any officer within the corporate trust division (or any successor group or department of the Trustee) including any vice president, assistant vice president, assistant secretary or any other officer or assistant officer of the Trustee customarily performing functions similar to those performed by the persons who at the time shall be such officers, respectively, with responsibility for the administration of the Indenture.

Revenue Fund. The term “Revenue Fund” means the fund of the District by that name continued pursuant to Section 5.01(b).

Revenues. “Revenues” means (i) all water availability charges imposed pursuant to Chapter 2 of Part 5 of the Law not exceeding \$10 per acre per year; (ii) all income, rents, rates, fees, charges and other moneys derived by the District from the ownership or operation of the Water System, including, without limiting the generality of the foregoing, (a) all income, rents, rates, fees, charges or other moneys derived from the sale, furnishing, and supplying of water and other services, facilities and commodities sold, furnished or supplied through the facilities of the Water System, including connection fees, (b) the earnings on and income derived from the investment of such income, rents, rates, fees and charges or other moneys, (c) the proceeds derived by the District directly or indirectly from the sale, lease or other disposition of a part of the Water System as permitted under the Indenture, and (d) Interest Subsidy Payments; provided that the term “Revenues” shall not include customers’ deposits or any other deposits subject to refund until such deposits have become the property of the District.

S&P. The term “S&P” means Standard and Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business, or any successor thereto.

Securities Depositories. The term “Securities Depositories” means The Depository Trust Company; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories as the District may designate in a Written Request of the District deliver to the Trustee.

State. The term “State” means the State of California.

Supplemental Indenture. The term “Supplemental Indenture” means any indenture hereafter duly authorized and entered into between the District and the Trustee, supplementing, modifying or amending the Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized hereunder.

Tax Certificate. The term “Tax Certificate” means the Tax Certificate dated the Closing Date, concerning certain matters pertaining to the use and investment of proceeds of the 2016 Bonds issued by the District on the date of issuance of the 2016 Bonds, including any and all exhibits attached thereto.

Taxes. The term “Taxes” means all taxes, including ad valorem taxes of the District, other than taxes imposed pursuant to Chapter 1 of Part 9 of the Law to secure general obligation bonds of the District or any improvement district thereof.

Tax Fund. The term “Tax Fund” means the fund continued in existence under the 1996 Installment Sale Agreement, the 1996 Installment Purchase Agreement, the 2007 Installment Purchase Agreement and the 2010 Installment Purchase Agreement and continued by the terms of Section 5.02 hereof.

Trustee. The term “Trustee” means MUFG Union Bank, N.A., a national banking association duly organized and existing under the laws of the United States of America, or its successor as Trustee hereunder as provided in Section 8.01.

2007 Certificates. The term “2007 Certificates” means the Otay Water District Refunding Certificates of Participation (2007 Water System Project) Series 2007.

2013 Installment Purchase Agreement. The term “2013 Installment Purchase Agreement” means the Installment Purchase Agreement, dated as of March 1, 2007, by and between the District and the Corporation, as originally executed and as it may from time to time be amended or supplemented in accordance therewith.

2010 Installment Purchase Agreement. The term “2010 Installment Purchase Agreement” means the Installment Purchase Agreement, dated as of March 1, 2010, by and between the District and the Corporation, as originally executed and as it may from time to time be amended or supplemented in accordance therewith.

2010A Bonds. The term “2010A Bonds” means the Otay Water District Financing Authority Water Revenue Bonds, Series 2010A (Non-AMT Tax-Exempt Bonds).

2010B Bonds. The term “2010B Bonds” means the Otay Water District Financing Authority Water Revenue Bonds, Series 2010B (Taxable Build America Bonds).

2013 Bonds. The term “2013 Bonds” means the Otay Water District 2013 Water Revenue Refunding Bonds.

2016 Bonds. The term “2016 Bonds” means the Otay Water District 2016 Water Revenue Refunding Bonds, authorized pursuant to the Indenture.

Valuation Date. “Valuation Date” means the fifth Business Day preceding the date of redemption.

Value. The term “Value,” which shall be determined as of the end of each month, means that the value of any investments shall be calculated as follows:

(a) for the purpose of determining the amount of any fund, all Permitted Investments credited to such fund shall be valued at fair market value. The Trustee shall determine the fair market value based on accepted industry standards and from accepted industry providers. Accepted industry providers shall include, but are not limited to, pricing services provided by Financial Times Interactive Data Corporation, Bank of America Merrill Lynch and Morgan Stanley Smith Barney.

(b) As to certificates of deposit and bankers’ acceptances: the face amount thereof, plus accrued interest.

(c) As to any investment not specified above: market value, or, if the market value is not ascertainable by the District or the Trustee, at cost.

Water Service. The term “Water Service” means the water distribution service made available or provided by the Water System.

Water System. The term “Water System” means the entire potable and reclaimed water supply, treatment, storage and distribution system of the District, including but not limited to all facilities, properties and improvements at any time owned, controlled or operated by the District for the supply, treatment and storage of potable or reclaimed water to customers of the District, and any necessary lands, rights, entitlements and other property useful in connection therewith, together with all

extensions thereof and improvements thereto at any time acquired, constructed or installed by the District.

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

Section 1.02. Content of Certificates and Opinions. Every certificate or opinion provided for in the Indenture except the certificate of destruction provided for in Section 11.05 hereof, with respect to compliance with any provision hereof shall include: (1) a statement that the person making or giving such certificate or opinion has read such provision and the definitions herein relating thereto; (2) a brief statement as to the nature and scope of the examination or investigation upon which the certificate or opinion is based; (3) a statement that, in the opinion of such person he has made or caused to be made such examination or investigation as is necessary to enable him to express an informed opinion with respect to the subject matter referred to in the instrument to which his signature is affixed; (4) a statement of the assumptions upon which such certificate or opinion is based, and that such assumptions are reasonable; and (5) a statement as to whether, in the opinion of such person, such provision has been complied with.

Any such certificate or opinion made or given by an officer of the District may be based, insofar as it relates to legal or accounting matters, upon a certificate or opinion of or representation by counsel or an Independent Certified Public Accountant or Independent Financial Consultant, unless such officer knows, or in the exercise of reasonable care should have known, that the certificate, opinion or representation with respect to the matters upon which such certificate or statement may be based, as aforesaid, is erroneous. Any such certificate or opinion made or given by counsel or an Independent Certified Public Accountant or Independent Financial Consultant may be based, insofar as it relates to factual matters (with respect to which information is in the possession of the District) upon a certificate or opinion of or representation by an officer of the District, unless such counsel or Independent Certified Public Accountant or Independent Financial Consultant knows, or in the exercise of reasonable care should have known, that the certificate or opinion or representation with respect to the matters upon which such person’s certificate or opinion or representation may be based, as aforesaid, is erroneous. The same officer of the District, or the same counsel or Independent Certified Public Accountant or Independent Financial Consultant, as the case may be, need not certify to all of the matters required to be certified under any provision of the Indenture, but different officers, counsel or Independent Certified Public Accountants or Independent Financial Consultants may certify to different matters, respectively.

Section 1.03. Interpretation.

(a) Unless the context otherwise indicates, words expressed in the singular shall include the plural and vice versa and the use of the neuter, masculine, or feminine gender is for convenience only and shall be deemed to include the neuter, masculine or feminine gender, as appropriate.

(b) Headings of articles and sections herein and the table of contents hereof are solely for convenience of reference, do not constitute a part hereof and shall not affect the meaning, construction or effect hereof.

(c) All references herein to “Articles,” “Sections” and other subdivisions are to the corresponding Articles, Sections or subdivisions of the Indenture; the words “herein,” “hereof,” “hereby,” “hereunder” and other words of similar import refer to the Indenture as a whole and not to any particular Article, Section or subdivision hereof.

ARTICLE II

THE 2016 BONDS

Section 2.01. Authorization of 2016 Bonds. The District hereby authorizes the issuance hereunder from time to time of the 2016 Bonds, which shall constitute special obligations of the District, for the purpose of refunding all of the outstanding 2007 Certificates. The 2016 Bonds are hereby designated the “Otay Water District 2016 Water Revenue Refunding Bonds” in the aggregate principal amount of \$_____. The Indenture constitutes a continuing agreement with the Owners from time to time of the 2016 Bonds to secure the full payment of the principal of and interest and premium (if any) on all the 2016 Bonds, subject to the covenants, provisions and conditions herein contained.

Section 2.02. Terms of the 2016 Bonds. The 2016 Bonds shall be issued in fully registered form without coupons in denominations of \$5,000 or any integral multiple thereof.

The 2016 Bonds shall mature on September 1 in each of the years and in the amounts set forth below and shall bear interest on each Interest Payment Date at the rates set forth below:

<i>Maturity Date</i> <i>(September 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>
--	-------------------------	----------------------

Interest on the 2016 Bonds shall be payable on each Interest Payment Date to the person whose name appears on the Registration Books as the Owner thereof as of the Record Date immediately preceding each such Interest Payment Date, such interest to be paid by check of the Trustee sent by first class mail on the applicable Interest Payment Date to the Owner at the address of such Owner as it appears on the Registration Books (except that in the case of an Owner of one million dollars (\$1,000,000) or more in principal amount, such payment may, at such Owner’s option, be made by wire transfer of immediately available funds to an account in the United States in accordance with

written instructions provided to the Trustee by such Owner prior to the Record Date. Principal of any 2016 Bond shall be paid by check of the Trustee upon presentation and surrender thereof at maturity at the Office of the Trustee. Both the principal of and interest on the 2016 Bonds shall be payable in lawful money of the United States of America.

Each 2016 Bond shall be dated the date of initial delivery, and shall bear interest from the Interest Payment Date next preceding the date of authentication thereof unless: (a) it is authenticated after a Record Date and on or before the following Interest Payment Date, in which event it shall bear interest from such Interest Payment Date; or (b) unless it is authenticated on or before August 15, 2016, in which event it shall bear interest from the date of initial delivery; provided, however, that if, as of the date of authentication of any 2016 Bond, interest thereon is in default, such 2016 Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon. Interest on the 2016 Bonds shall be calculated on the basis of a 360 day year composed of twelve 30 day months.

Section 2.03. Transfer of 2016 Bonds. Any 2016 Bond may, in accordance with its terms, be transferred on the Registration Books by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such 2016 Bond at the Office of the Trustee for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form acceptable to the Trustee.

Whenever any 2016 Bond or 2016 Bonds shall be surrendered for transfer, the District shall execute and the Trustee shall authenticate and shall deliver a new 2016 Bond or 2016 Bonds of authorized denomination or denominations for a like series and aggregate principal amount of the same maturity. The Trustee shall require the 2016 Bond Owner requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer. Following any transfer of 2016 Bonds, the Trustee will cancel and destroy the 2016 Bonds it has received.

Section 2.04. Exchange of 2016 Bonds. 2016 Bonds may be exchanged at the Office of the Trustee for a like aggregate principal amount of other authorized denominations of the same series and maturity. The Trustee shall require the 2016 Bond Owner requesting such exchange to pay any tax or other governmental charge required to be paid with respect to such exchange. Following any exchange of 2016 Bonds, the Trustee will cancel and destroy the 2016 Bonds it has received.

Section 2.05. Registration Books. The Trustee will keep or cause to be kept, at the Office of the Trustee, sufficient records for the registration and transfer of ownership of the 2016 Bonds, which shall upon reasonable notice and at reasonable times be open to inspection during regular business hours by the District and the Owners; and, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such records, the ownership of the 2016 Bonds as hereinbefore provided.

The person in whose name any 2016 Bond shall be registered shall be deemed the Owner thereof for all purposes hereof, and payment of or on account of the interest on and principal of by such 2016 Bonds shall be made only to or upon the order in writing of such registered Owner, which payments shall be valid and effectual to satisfy and discharge liability upon such 2016 Bond to the extent of the sum or sums so paid.

Section 2.06. Form and Execution of 2016 Bonds. The 2016 Bonds shall be in substantially the form set forth in Exhibit A hereto. The 2016 Bonds shall be executed in the name and on behalf

of the District with the manual or facsimile signature of its President and attested to by its Secretary. The 2016 Bonds may carry a seal, and such seal may be in the form of a facsimile of the District's seal and may be reproduced, imprinted or impressed on the 2016 Bonds. The 2016 Bonds shall then be delivered to the Trustee for authentication by it. In case any of the officers who shall have signed or attested any of the 2016 Bonds shall cease to be such officer or officers of the District before the 2016 Bonds so signed or attested shall have been authenticated or delivered by the Trustee, or issued by the District, such 2016 Bonds may nevertheless be authenticated, delivered and issued and, upon such authentication, delivery and issue, shall be as binding upon the District as though those who signed and attested the same had continued to be such officers of the District, and also any 2016 Bonds may be signed and attested on behalf of the District by such persons as at the actual date of execution of such 2016 Bonds shall be the proper officers of the District although at the nominal date of such 2016 Bonds any such person shall not have been such officer of the District.

Only such of the 2016 Bonds as shall bear thereon a certificate of authentication substantially in the form set forth in Exhibit A hereto, manually executed by the Trustee, shall be valid or obligatory for any purpose or entitled to the benefits of the Indenture, and such certificate of or on behalf of the Trustee shall be conclusive evidence that the 2016 Bonds so authenticated have been duly executed, authenticated and delivered hereunder and are entitled to the benefits of the Indenture.

Section 2.07. 2016 Bonds Mutilated, Lost, Destroyed or Stolen. If any 2016 Bond shall become mutilated, the District, at the expense of the Owner of said 2016 Bond, shall execute, and the Trustee shall thereupon authenticate and deliver, a new 2016 Bond of like tenor, series and authorized denomination in exchange and substitution for the 2016 Bonds so mutilated, but only upon surrender to the Trustee of the 2016 Bond so mutilated. Every mutilated 2016 Bond so surrendered to the Trustee shall be canceled by it and upon the Written Request of the District delivered to, or upon the order of, the District. If any 2016 Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence be satisfactory to the Trustee and indemnity satisfactory to the Trustee shall be given, the District, at the expense of the Owner, shall execute, and the Trustee shall thereupon authenticate and deliver, a new 2016 Bond of like tenor, series and authorized denomination in lieu of and in substitution for the 2016 Bond so lost, destroyed or stolen (or if any such 2016 Bond shall have matured or shall be about to mature, instead of issuing a substitute 2016 Bond, the Trustee may pay the same without surrender thereof). The District may require payment by the Owner of a sum not exceeding the actual cost of preparing each new 2016 Bond issued under this Section and of the expenses which may be incurred by the District and the Trustee in the premises. Any 2016 Bond issued under the provisions of this Section in lieu of any 2016 Bond alleged to be lost, destroyed or stolen shall constitute an original additional contractual obligation on the part of the District whether or not the 2016 Bond so alleged to be lost, destroyed, or stolen be at any time enforceable by anyone, and shall be entitled to the benefits of the Indenture with all other 2016 Bonds secured by the Indenture. Notwithstanding any other provision of this Section, in lieu of delivering a new 2016 Bond for a 2016 Bond which has been mutilated, lost, destroyed or stolen and which has matured, the Trustee may make payment of such 2016 Bond upon receipt of indemnity satisfactory to the Trustee.

Section 2.08. Book Entry System.

(a) Election of Book Entry System. Prior to the issuance of the 2016 Bonds, the District may provide that such 2016 Bonds shall be initially issued as book entry 2016 Bonds. If the District shall elect to deliver any 2016 Bonds in book entry form, then the District shall cause the delivery of a separate single fully registered bond (which may be typewritten) for each maturity date of such 2016 Bonds in an authorized denomination corresponding to that total principal amount of the 2016 Bonds designated to mature on such date. Upon initial issuance, the ownership of each such 2016 Bond shall be registered in the 2016 Bond Registration Books in the name of the Nominee, as nominee of the Depository, and ownership of the 2016 Bonds, or any portion thereof may not thereafter be transferred except as provided in Section 2.08(e).

With respect to book entry 2016 Bonds, the District and the Trustee shall have no responsibility or obligation to any Participant or to any person on behalf of which such a Participant holds an interest in such book entry 2016 Bonds. Without limiting the immediately preceding sentence, the District and the Trustee shall have no responsibility or obligation with respect to: (i) the accuracy of the records of the Depository, the Nominee, or any Participant with respect to any ownership interest in book entry 2016 Bonds; (ii) the delivery to any Participant or any other person, other than an Owner as shown in the 2016 Bond Registration Books, of any notice with respect to book entry 2016 Bonds; (iii) the selection by the Depository and its Participants of the beneficial interests in book entry 2016 Bonds to be redeemed in the event that the District redeems the 2016 Bonds in part; or (iv) the payment by the Depository or any Participant or any other person, of any amount of principal of or interest on book entry 2016 Bonds. The District and the Trustee may treat and consider the person in whose name each book entry 2016 Bond is registered in the 2016 Bond Registration Books as the absolute Owner of such book entry 2016 Bond for the purpose of payment of principal of and interest on such 2016 Bond, for the purpose of giving notices of other matters with respect to such 2016 Bond, for the purpose of registering transfers with respect to such 2016 Bond, and for all other purposes whatsoever. The Trustee shall pay all principal of and interest on the 2016 Bonds only to or upon the order of the respective Owner, as shown in the 2016 Bond Registration Books, or his respective attorney duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the District's obligations with respect to payment of principal of and interest on the 2016 Bonds to the extent of the sum or sums so paid. No person other than an Owner, as shown in the 2016 Bond Registration Books, shall receive a 2016 Bond evidencing the obligation to make payments of principal of and interest on the 2016 Bonds. Upon delivery by the Depository to the District and the Trustee, of written notice to the effect that the Depository has determined to substitute a new nominee in place of the Nominee, and subject to the provisions herein with respect to Record Dates, the word Nominee in the Indenture shall refer to such nominee of the Depository.

(b) Delivery of Letter of Representations. In order to qualify the book entry 2016 Bonds for the Depository's book entry system, the District and the Trustee (if required by the Depository) shall execute and deliver to the Depository a Letter of Representations. The execution and delivery of a Letter of Representations shall not in any way impose upon the District or the Trustee any obligation whatsoever with respect to persons having interests in such book entry 2016 Bonds other than the Owners, as shown on the 2016 Bond Registration Books. By executing a Letter of Representations, the Trustee shall agree to take all action necessary at all times so that the Trustee will be in compliance with all representations of the Trustee in such Letter of Representations. In addition to the execution and delivery of a Letter of Representations, the District and the Trustee shall take such other actions, not inconsistent with the Indenture, as are reasonably necessary to qualify book entry 2016 Bonds for the Depository's book entry program.

(c) Selection of Depository. In the event that: (i) the Depository determines not to continue to act as securities depository for book entry 2016 Bonds; or (ii) the District determines that continuation of the book entry system is not in the best interest of the beneficial owners of the 2016 Bonds or the District, then the District will discontinue the book entry system with the Depository. If the District determines to replace the Depository with another qualified securities depository, the District shall prepare or direct the preparation of a new single, separate, fully registered 2016 Bond for each of the maturity dates of such book entry 2016 Bonds, registered in the name of such successor or substitute qualified securities depository or its Nominee as provided in subsection (e) hereof. If the District fails to identify another qualified securities depository to replace the Depository, then the 2016 Bonds shall no longer be restricted to being registered in such 2016 Bond Registration Books in the name of the Nominee, but shall be registered in whatever name or names the Owners transferring or exchanging such 2016 Bonds shall designate, in accordance with the provisions of Sections 2.03 and 2.04 hereof.

(d) Payments To Depository. Notwithstanding any other provision of the Indenture to the contrary, so long as all Outstanding 2016 Bonds are held in book entry form and registered in the name of the Nominee, all payments of principal of and interest on such 2016 Bond and all notices with respect to such 2016 Bond shall be made and given, respectively to the Nominee, as provided in the Letter of Representations or as otherwise instructed by the Depository and agreed to by the Trustee notwithstanding any inconsistent provisions herein.

(e) Transfer of 2016 Bonds to Substitute Depository.

(i) The 2016 Bonds shall be initially issued as provided in Section 2.01 hereof. Registered ownership of such 2016 Bonds, or any portions thereof, may not thereafter be transferred except:

(A) to any successor of DTC or its nominee, or of any substitute depository designated pursuant to clause (B) of subsection (i) of this Section 2.08(e) (“Substitute Depository”); provided that any successor of DTC or Substitute Depository shall be qualified under any applicable laws to provide the service proposed to be provided by it;

(B) to any Substitute Depository, upon: (1) the resignation of DTC or its successor (or any Substitute Depository or its successor) from its functions as depository; or (2) a determination by the District that DTC (or its successor) is no longer able to carry out its functions as depository; provided that any such Substitute Depository shall be qualified under any applicable laws to provide the services proposed to be provided by it; or

(C) to any person as provided below, upon: (1) the resignation of DTC or its successor (or any Substitute Depository or its successor) from its functions as depository; or (2) a determination by the District that DTC or its successor (or Substitute Depository or its successor) is no longer able to carry out its functions as depository.

(ii) In the case of any transfer pursuant to clause (A) or clause (B) of subsection (i) of this Section 2.08(e), upon receipt of all Outstanding 2016 Bonds by the Trustee, together with a Written Request of the District to the Trustee designating the Substitute Depository, a single new 2016 Bond, which the District shall prepare or cause to be prepared, shall be issued for each maturity of 2016 Bonds then Outstanding, registered in the name of such successor or such Substitute Depository or their Nominees, as the case may be, all as specified in such Written Request of the

District. In the case of any transfer pursuant to clause (C) of subsection (i) of this Section 2.08(e), upon receipt of all Outstanding 2016 Bonds by the Trustee, together with a Written Request of the District to the Trustee, new 2016 Bonds, which the District shall prepare or cause to be prepared, shall be issued in such denominations and registered in the names of such persons as are requested in such Written Request of the District, subject to the limitations of Section 2.01 hereof, provided that the Trustee shall not be required to deliver such new 2016 Bonds within a period of less than sixty (60) days from the date of receipt of such Written Request from the District.

(iii) In the case of a partial redemption or an advance refunding of any 2016 Bonds evidencing a portion of the principal maturing in a particular year, DTC or its successor (or any Substitute Depository or its successor) shall make an appropriate notation on such 2016 Bonds indicating the date and amounts of such reduction in principal, in form acceptable to the Trustee, all in accordance with the Letter of Representations. The Trustee shall not be liable for such Depository's failure to make such notations or errors in making such notations and the records of the Trustee as to the Outstanding principal amount of such 2016 Bonds shall be controlling.

(iv) The District and the Trustee shall be entitled to treat the person in whose name any 2016 Bond is registered as the Owner thereof for all purposes of the Indenture and any applicable laws, notwithstanding any notice to the contrary received by the Trustee or the District; and the District and the Trustee shall not have responsibility for transmitting payments to, communicating with, notifying, or otherwise dealing with any beneficial owners of the 2016 Bonds. Neither the District nor the Trustee shall have any responsibility or obligation, legal or otherwise, to any such beneficial owners or to any other party, including DTC or its successor (or Substitute Depository or its successor), except to the Owner of any 2016 Bonds, and the Trustee may rely conclusively on its records as to the identity of the Owners of the 2016 Bonds.

ARTICLE III

ISSUANCE OF 2016 BONDS; APPLICATION OF PROCEEDS

Section 3.01. Issuance of the 2016 Bonds. At any time after the execution of the Indenture, the District may execute and the Trustee shall authenticate and, upon Written Request of the District, deliver the 2016 Bonds in the aggregate principal amount of \$_____.

Section 3.02. Application of Proceeds of the 2016 Bonds and Certain Other Moneys. The proceeds received from the sale of the 2016 Bonds shall be deposited in the Bond Proceeds Fund, which the Trustee shall establish and maintain, and then shall be further transferred or deposited as follows: the amount of \$_____ shall be transferred to the Escrow Agent for deposit in the escrow fund created pursuant to the Escrow Agreement in connection with the Refunded 2007 Certificates and the amount of \$_____ shall be deposited into the Costs of Issuance Fund. The Trustee may establish a temporary fund or account in its records for administrative convenience. Upon making the foregoing deposits or transfers, the Trustee shall close the Bond Proceeds Fund.

Section 3.03. Establishment and Application of Costs of Issuance Fund. The Trustee shall establish, maintain and hold in trust a separate fund designated as the "Costs of Issuance Fund." The moneys in the Costs of Issuance Fund shall be used and withdrawn by the Trustee to pay the Costs of Issuance upon submission of Requisitions of the District stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred, that such payment is proper charge against said fund and that payment for such charge has not previously been made. On

December 5, 2016, or upon the earlier Written Request of the District, all amounts remaining in the Costs of Issuance Fund shall be transferred by the Trustee to the Interest Account and the Costs of Issuance Fund shall be closed. Investment earnings on amounts on deposit in the Costs of Issuance Fund shall be applied in accordance with Section 5.07 hereof.

Section 3.04. Validity of 2016 Bonds. The validity of the authorization and issuance of the 2016 Bonds is not dependent on and shall not be affected in any way by any proceedings taken by the District or the Trustee with respect to any other agreement. The recital contained in the 2016 Bonds that the same are issued pursuant to the Constitution and laws of the State shall be conclusive evidence of the validity and of compliance with the provisions of law in their issuance.

ARTICLE IV

REDEMPTION OF 2016 BONDS

Section 4.01. Optional Redemption. The 2016 Bonds maturing on or before September 1, 2026, are not subject to optional redemption prior to their respective stated maturities. The 2016 Bonds maturing on or after September 1, 2027 shall be subject to optional redemption, in whole or in part, on any date on or after September 1, 2026, at the option of the District, from any source of available funds, at a redemption price equal to the principal amount of the 2016 Bonds to be redeemed, plus accrued interest thereon to the date of redemption.

The District shall provide to the Trustee notice of its election to optionally redeem the 2016 Bonds in whole or in part, at least 45 days (or such shorter period of time as is consented to by the Trustee) prior to the date selected for redemption.

Section 4.02. Mandatory Sinking Fund Redemption. The 2016 Bonds maturing September 1, ____ (the "Term Bonds") are also subject to mandatory sinking fund redemption in part, on September 1 in each of the years as set forth in the following table, at a redemption price equal to the principal amount thereof to be redeemed together with accrued interest thereon to the redemption date, without premium. If some but not all of the Term Bonds have been redeemed pursuant to the optional redemption provisions of the Indenture, the principal amount of all subsequent mandatory sinking fund payments with respect to such Term Bonds will be reduced by the aggregate principal amount of such Term Bonds so optionally redeemed, such reduction to be allocated among such subsequent mandatory sinking fund payments in integral multiples of \$5,000 on a basis designated by the District in a Written Certificate of the District filed with the Trustee.

SINKING FUND PAYMENT SCHEDULE FOR TERM BONDS MATURING SEPTEMBER 1, ____

<i>Year (September 1)</i>	<i>Principal Amount</i>

Section 4.03. Notice of Redemption; Rescission. When redemption is authorized or required, the Trustee on behalf and at the expense of the District shall mail (by first class mail) notice of any redemption to the respective Owners of any 2016 Bonds designated for redemption at their

respective addresses appearing on the Registration Books at least 30 but not more than 60 days prior to the date fixed for redemption; provided, however, so long as such 2016 Bonds are registered in the name of DTC, or its nominee, notice shall be sent in any manner approved by DTC. Such notice shall state the date of the notice, the redemption date, the redemption place and the redemption price and shall designate the CUSIP numbers, if any, the 2016 Bond numbers and the maturity or maturities of the 2016 Bonds to be redeemed (except in the event of redemption of all of the 2016 Bonds of such maturity or maturities in whole), and shall require that such 2016 Bonds be then surrendered at the Office of the Trustee for redemption at the redemption price, giving notice also that further interest on such 2016 Bonds will not accrue from and after the date fixed for redemption. Neither the failure to receive any notice so mailed, nor any defect in such notice, shall affect the validity of the proceedings for the redemption of the 2016 Bonds or the cessation of accrual of interest thereon from and after the date fixed for redemption.

With respect to any notice of any optional redemption of 2016 Bonds, unless at the time such notice is given the 2016 Bonds to be redeemed shall be deemed to have been paid within the meaning of the Indenture, such notice shall state that such redemption is conditional upon receipt by the Trustee, on or prior to the date fixed for such redemption, of moneys that, together with other available amounts held by the Trustee, are sufficient to pay the redemption price of, and accrued interest on, the 2016 Bonds to be redeemed, and that if such moneys shall not have been so received said notice shall be of no force and effect and the District shall not be required to redeem such 2016 Bonds. In the event a notice of redemption of 2016 Bonds contains such a condition and such moneys are not so received, the redemption of 2016 Bonds as described in the conditional notice of redemption shall not be made and the Trustee shall, within a reasonable time after the date on which such redemption was to occur, give notice to the Persons and in the manner in which the notice of redemption was given, that such moneys were not so received and that there shall be no redemption of 2016 Bonds pursuant to such notice of redemption.

Section 4.04. Selection of 2016 Bonds for Redemption. Whenever provision is made for the optional redemption of less than all of the 2016 Bonds, the Trustee shall select the 2016 Bonds to be redeemed from all 2016 Bonds not previously called for redemption among maturities of 2016 Bonds as directed in a Written Request of the District, and by lot among 2016 Bonds with the same maturity in any manner which the Trustee in its sole discretion shall deem appropriate. Whenever provision is made for the sinking fund redemption of less than all of the 2016 Bonds, the Trustee shall select the 2016 Bonds to be redeemed from all 2016 Bonds not previously called for redemption by lot among 2016 Bonds with the same maturity in any manner which the Trustee in its sole discretion shall deem appropriate. For purposes of such selection, all Bonds shall be deemed to be comprised of separate \$5,000 denominations and such separate denominations shall be treated as separate 2016 Bonds which may be separately redeemed.

Section 4.05. Partial Redemption of 2016 Bonds. Upon surrender of any 2016 Bonds redeemed in part only, the District shall execute and the Trustee shall authenticate and deliver to the Owner thereof, at the expense of the District, a new Bond or Bonds with the same maturity in an aggregate principal amount equal to the unredeemed portion of the 2016 Bonds surrendered.

Section 4.06. Effect of Notice of Redemption. Notice of redemption having been duly given, and moneys for the redemption price, and the interest to the applicable date fixed for redemption, having been set aside with the Trustee, the 2016 Bonds shall become due and payable on said date, and, upon presentation and surrender thereof at the Office of the Trustee, said 2016 Bonds shall be paid at the redemption price thereof, together with interest accrued and unpaid to said date. If, on said

date fixed for redemption, moneys for the redemption price of all the 2016 Bonds to be redeemed, together with interest to said date, shall be held by the Trustee so as to be available therefor on such date, and, if notice of redemption thereof shall have been duly given and not canceled, then, from and after said date, interest on said 2016 Bonds shall cease to accrue and become payable. All moneys held by or on behalf of the Trustee for the redemption of 2016 Bonds shall be held in trust for the account of the Owners of the 2016 Bonds so to be redeemed without liability to such Owners for interest thereon.

ARTICLE V

REVENUES, FUNDS AND ACCOUNTS; PAYMENT OF PRINCIPAL AND INTEREST

Section 5.01. Pledge and Assignment; Revenue Fund.

(a) All Taxes and Revenues and all amounts held in the Revenue Fund and the Tax Fund described in subsection (b) below and any other amounts held in any fund or account established pursuant to the Indenture (except the Rebate Fund) are hereby irrevocably pledged to secure the payment of the principal of and interest on the 2016 Bonds in accordance with their terms and the provisions of the Indenture, and the Revenues and Taxes shall not be used for any other purpose while the 2016 Bonds remain Outstanding; provided that out of the Revenues and Taxes there may be apportioned such sums for such purposes as are expressly permitted herein. This pledge shall constitute a first and exclusive lien on Revenues and Taxes and all amounts on deposit in the Revenue Fund and the Tax Fund on a parity with the pledge under all Contracts and Bonds, subject to application of amounts on deposit therein as permitted herein. Such lien shall attach, be perfected and be valid and binding from and after the Closing Date, without any physical delivery of the Revenues and Taxes or further act and shall be valid and binding against all parties having claims of any kind in tort, contract or otherwise against the District, irrespective of whether such parties have notice hereof.

(b) In order to carry out and effectuate the pledge and lien contained herein, the District agrees and covenants that all Revenues and Taxes shall be received by the District in trust and shall be deposited when and as received in special funds designated as the "Revenue Fund" and the "Tax Fund," respectively, which funds were previously maintained by the District in accordance with the provisions of the existing Contracts, and are hereby continued by the terms of this Section 5.02, and which funds the District agrees and covenants to maintain and to hold separate and apart from other funds so long as any Contracts or Bonds remain unpaid. Moneys in the Revenue Fund and Tax Fund shall be used and applied by the District as provided herein and in the other Contracts and Bonds. All moneys in the Revenue Fund shall be held in trust and shall be applied, used and withdrawn for the purposes set forth in this Section.

The District shall, from the moneys in the Revenue Fund, pay all Operation and Maintenance Costs (including amounts reasonably required to be set aside in contingency reserves for Operation and Maintenance Costs, the payment of which is not then immediately required) as such Operation and Maintenance Costs become due and payable. All moneys in the Tax Fund, and, to the extent such moneys are insufficient, all remaining moneys in the Revenue Fund shall be set aside by the District at the following times for the transfer to the following respective special funds in the following order of priority:

(i) Interest and Principal Payments. Not later than the fifth Business Day prior to each Interest Payment Date, the District shall, from the moneys in the Tax Fund, and to the

extent needed the Revenue Fund, transfer to the Trustee for deposit in the Payment Fund the payments of interest and principal on the 2016 Bonds due and payable on such Interest Payment Date. The District shall also, from the moneys in the Tax Fund, and to the extent needed the Revenue Fund, transfer to the applicable trustee or payee for deposit in the respective payment fund, without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference, any other Debt Service in accordance with the provisions of any Bond or Contract.

(ii) Reserve Funds. On or before each Interest Payment Date the District shall, from the remaining moneys in the Tax Fund, and to the extent needed the Revenue Fund, thereafter, without preference or priority and in the event of any insufficiency of such moneys ratably without any discrimination or preference, transfer to the applicable trustee for the reserve funds and/or accounts, if any, as may have been established in connection with Bonds or Contracts, that sum, if any, necessary to restore such funds or accounts to an amount equal to the reserve requirement with respect thereto and to transfer to any insurer any amounts due pursuant to any agreement related to the repayment of draws under any reserve policy or other credit instrument funding a reserve requirement for any Bonds or Contracts.

(iii) Surplus. Moneys on deposit in the Tax Fund or the Revenue Fund on any date when the District reasonably expects such moneys will not be needed for any of the purposes described in clauses (b)(i) or (b)(ii) may be expended by the District at any time for any purpose permitted by law.

(iv) Investments. All moneys held by the District in the Revenue Fund and the Tax Fund shall be invested in the manner authorized by the District's financial policies or as otherwise permitted by law. The investment earnings thereon shall remain on deposit in such funds, except as otherwise provided herein.

Section 5.02. Allocation of Revenues and Taxes. There is hereby established with the Trustee the Payment Fund which the Trustee covenants to maintain and hold in trust separate and apart from other funds held by it so long as any principal of and interest on the 2016 Bonds remain unpaid. Except as directed herein, all payments of interest and principal on the 2016 Bonds received by the Trustee pursuant to Section 5.01(b) shall be promptly deposited by the Trustee upon receipt thereof into the Payment Fund. All payments of interest and principal on the 2016 Bonds deposited with the Trustee shall be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture. The Trustee shall also establish and hold an Interest Account and a Principal Account within the Payment Fund.

The Trustee shall transfer from the Payment Fund and deposit into the following respective accounts, the following amounts in the following order of priority and at the following times, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

(a) Not later than the Business Day preceding each Interest Payment Date, the Trustee shall deposit in the Interest Account that sum, if any, required to cause the aggregate amount on deposit in the Interest Account to be at least equal to the amount of interest becoming due and payable on such date on all 2016 Bonds then Outstanding. No deposit need be made into the Interest

Account so long as there shall be in such fund moneys sufficient to pay the interest becoming due and payable on such date on all 2016 Bonds then Outstanding.

(b) Not later than the Business Day preceding each date on which the principal of the 2016 Bonds shall become due and payable hereunder, the Trustee shall deposit in the Principal Account that sum, if any, required to cause the aggregate amount on deposit in the Principal Account to equal the principal amount of the 2016 Bonds coming due and payable on such date. No deposit need be made into the Principal Account so long as there shall be in such fund moneys sufficient to pay the principal becoming due and payable on such date on all 2016 Bonds then Outstanding.

Section 5.03. [Reserved.]

Section 5.04. Application of Interest Account. All amounts in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying interest on the 2016 Bonds as it shall become due and payable (including accrued interest on any 2016 Bonds purchased or accelerated prior to maturity pursuant to the Indenture).

Section 5.05. Application of Principal Account. All amounts in the Principal Account shall be used and withdrawn by the Trustee solely to pay the principal amount of the 2016 Bonds at maturity, redemption, purchase or acceleration.

Section 5.06. Investments. All moneys in any of the funds or accounts established with the Trustee pursuant to the Indenture shall be invested by the Trustee solely in Permitted Investments. Such investments shall be directed by the District pursuant to a Written Request of the District filed with the Trustee at least two (2) Business Days in advance of the making of such investments (which directions shall be promptly confirmed to the Trustee in writing). In the absence of any such directions from the District, the Trustee shall invest any such moneys in Permitted Investments described in clause (d) of the definition thereof; provided, however, that any such investment shall be made by the Trustee only if, prior to the date on which such investment is to be made, the Trustee shall have received a written direction from the District specifying a specific money market fund and, if no such written direction from the District is so received, the Trustee shall hold such moneys uninvested. Obligations purchased as an investment of moneys in any fund shall be deemed to be part of such fund or account.

All interest or gain derived from the investment of amounts in any of the funds or accounts established hereunder shall be deposited in the Interest Account unless otherwise provided in the Indenture. For purposes of acquiring any investments hereunder, the Trustee may commingle funds (other than the Rebate Fund) held by it hereunder upon the Written Request of the District. The Trustee may act as principal or agent in the acquisition or disposition of any investment and may impose its customary charges therefor. The Trustee shall incur no liability for losses arising from any investments made pursuant to this Section 5.07.

The Trustee shall furnish the District periodic cash transaction statements which include detail for all investment transactions effected by the Trustee or brokers selected by the District. Upon the District's election, such statements will be delivered via the Trustee's online service and upon electing such service, paper statements will be provided only upon request. The District waives the right to receive brokerage confirmations of security transactions effected by the Trustee as they occur, to the extent permitted by law. The District further understands that trade confirmations for securities transactions effected by the Trustee will be available upon request and at no additional cost and other trade confirmations may be obtained from the applicable broker.

The Trustee or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Trustee under the Indenture.

The District shall invest, or cause to be invested, all moneys in any fund or accounts established with the Trustee as provided in the Tax Certificate.

For investment purposes, the Trustee may commingle the funds and accounts established hereunder, but shall account for each separately. In making any valuations of investments hereunder, the Trustee may utilize and rely on computerized securities pricing services that may be available to the Trustee, including those available through the Trustee accounting system.

Section 5.07. Rebate Fund.

(a) Establishment. The Trustee shall establish a fund for the 2016 Bonds designated the “Rebate Fund,” as directed in a Certificate of an Authorized Representative. Absent an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest on the 2016 Bonds will not be adversely affected, the District shall cause to be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to this Section and the Tax Certificate. All money at any time deposited in the Rebate Fund shall be held by the Trustee in trust for payment to the United States Treasury. All amounts on deposit in the Rebate Fund for the 2016 Bonds shall be governed by this Section and the Tax Certificate, unless and to the extent that the District delivers to the Trustee an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest on the 2016 Bonds will not be adversely affected if such requirements are not satisfied. Notwithstanding anything to the contrary contained herein or in the Tax Certificate, the Trustee: (i) shall be deemed conclusively to have complied with the provisions thereof if it follows all Requests of the District; and (ii) shall have no liability or responsibility to enforce compliance by the District with the terms of the Tax Certificate; and (iii) may rely conclusively on the District’s calculations and determinations and certifications relating to rebate matters; and (iv) shall have no responsibility to independently make any calculations or determinations or to review the District’s calculations or determinations thereunder.

(i) Computation. Within 55 days of the end of the fifth Bond Year (as such term is defined in the Tax Certificate) and each succeeding fifth anniversary, the District shall calculate or cause to be calculated the amount of rebatable arbitrage, in accordance with Section 148(f)(2) of the Code and Section 1.148-3 of the Treasury Regulations (taking into account any applicable exceptions with respect to the computation of the rebatable arbitrage, described, if applicable, in the Tax Certificate (*e.g.*, the temporary investments exceptions of Section 148(f)(4)(B) and the construction expenditures exception of Section 148(f)(4)(C) of the Code), and taking into account whether the election pursuant to Section 148(f)(4)(C)(vii) of the Code (the “1½% Penalty”) has been made), for this purpose treating the last day of the applicable Bond Year as a computation date, within the meaning of Section 1.148-1(b) of the Treasury Regulations (the “Rebatable Arbitrage”). The District shall obtain expert advice as to the amount of the Rebatable Arbitrage to comply with this Section.

(ii) Transfer. Within 55 days of the end of the fifth Bond Year and each succeeding fifth anniversary, upon the Written Request of the District, an amount shall be deposited to the Rebate Fund by the Trustee from any Net Revenues legally available for such purpose (as specified by the District in the aforesaid Written Request), if and to the extent required so that the balance in the Rebate Fund shall equal the amount of Rebatable Arbitrage so calculated in accordance with clause (i)

of this subsection (a). In the event that immediately following the transfer required by the previous sentence, the amount then on deposit to the credit of the Rebate Fund exceeds the amount required to be on deposit therein, upon Written Request of the District, the Trustee shall withdraw the excess from the Rebate Fund and then credit the excess to the Payment Fund.

(iii) Payment to the Treasury. The Trustee shall pay, as directed by Written Request of the District, to the United States Treasury, out of amounts in the Rebate Fund:

(A) Not later than 60 days after the end of: (X) the fifth Bond Year; and (Y) each applicable fifth Bond Year thereafter, an amount equal to at least 90% of the Rebatable Arbitrage calculated as of the end of such Bond Year; and

(B) Not later than 60 days after the payment of all the 2016 Bonds, an amount equal to 100% of the Rebatable Arbitrage calculated as of the end of such applicable Bond Year, and any income attributable to the Rebatable Arbitrage, computed in accordance with Section 148(f) of the Code and Section 1.148-3 of the Treasury Regulations.

In the event that, prior to the time of any payment required to be made from the Rebate Fund, the amount in the Rebate Fund is not sufficient to make such payment when such payment is due, the District shall calculate or cause to be calculated the amount of such deficiency and deposit an amount received from any legally available source equal to such deficiency prior to the time such payment is due. Each payment required to be made pursuant to this subsection (a) shall be made to the Internal Revenue Service Center, Ogden, Utah 84201 on or before the date on which such payment is due, and shall be accompanied by Internal Revenue Service Form 8038-T (prepared by the District), or shall be made in such other manner as provided under the Code.

(b) Disposition of Unexpended Funds. Any funds remaining in the Rebate Fund after payment of the 2016 Bonds and the payments described in subsection (a) above being made may be withdrawn by the District and utilized in any manner by the District.

(c) Survival of Defeasance. Notwithstanding anything in this Section to the contrary, the obligation to comply with the requirements of this Section shall survive the defeasance or payment in full of the 2016 Bonds.

Section 5.08. Application of Funds and Accounts When No 2016 Bonds are Outstanding. On the date on which all 2016 Bonds shall be retired hereunder or provision made therefor pursuant to Article X and after payment of all amounts due the Trustee hereunder, all moneys then on deposit in any of the funds or accounts (other than the Rebate Fund) established with the Trustee pursuant to the Indenture shall be withdrawn by the Trustee and paid to the District for use by the District at any time for any purpose permitted by law.

ARTICLE VI

PARTICULAR COVENANTS

Section 6.01. Punctual Payment. The District shall punctually pay or cause to be paid the principal and interest to become due in respect of all of the 2016 Bonds, in strict conformity with the terms of the 2016 Bonds and of the Indenture, according to the true intent and meaning thereof, but only out of Net Revenues and other assets pledged for such payment as provided in the Indenture.

Section 6.02. Extension of Payment of 2016 Bonds. The District shall not directly or indirectly extend or assent to the extension of the maturity of any of the 2016 Bonds or the time of payment of any claims for interest by the purchase of such 2016 Bonds or by any other arrangement, and in case the maturity of any of the 2016 Bonds or the time of payment of any such claims for interest shall be extended, such 2016 Bonds or claims for interest shall not be entitled, in case of any default hereunder, to the benefits of the Indenture, except subject to the prior payment in full for the principal of all of the 2016 Bonds then Outstanding and of all claims for interest thereon which shall not have been so extended. Nothing in this Section shall be deemed to limit the right of the District to issue Bonds for the purpose of refunding any Outstanding 2016 Bonds, and such issuance shall not be deemed to constitute an extension of maturity of 2016 Bonds.

Section 6.03. Against Encumbrances. The District will not make any pledge of or place any lien on Revenues or the moneys in the Revenue Fund or Taxes or moneys in the Tax Fund except as provided herein. The District may at any time, or from time to time, execute Contracts or issue Bonds as permitted herein. The District may also at any time, or from time to time, incur evidences of indebtedness or incur other obligations for any lawful purpose which are not Contracts or Bonds and which are payable from and secured by a pledge of and lien on Revenues or any moneys in the Revenue Fund or Taxes or moneys in the Tax Fund as may from time to time be deposited therein, provided that such pledge and lien shall be subordinate in all respects to the pledge of and lien thereon provided herein.

Section 6.04. Power to Issue 2016 Bonds and Make Pledge and Assignment. The District is duly authorized pursuant to law to issue the 2016 Bonds and to enter into the Indenture and to pledge and assign the Revenues and other assets purported to be pledged and assigned under the Indenture in the manner and to the extent provided in the Indenture. The 2016 Bonds and the provisions of the Indenture are and will be the legal, valid and binding special obligations of the District in accordance with their terms, and the District and the Trustee shall at all times, subject to the provisions of Article VIII and to the extent permitted by law, defend, preserve and protect said pledge and assignment of Revenues and other assets and all the rights of the 2016 Bond Owners under the Indenture against all claims and demands of all persons whomsoever.

Section 6.05. Accounting Records and Financial Statements.

(a) The Trustee shall at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with corporate trust industry standards, in which complete and accurate entries shall be made of all transactions made by it relating to the proceeds of 2016 Bonds and all funds and accounts established by it pursuant to the Indenture. Such books of record and account shall be available for inspection by the District upon reasonable prior notice during business hours and under reasonable circumstances.

(b) The District will keep appropriate accounting records in which complete and correct entries shall be made of all transactions relating to the Water System, which records shall be available for inspection by the Trustee (which shall have no duty to inspect such records) at reasonable hours and under reasonable conditions.

Section 6.06. Tax Covenants. Notwithstanding any other provision of the Indenture, absent an opinion of Bond Counsel that the exclusion from gross income of the portion of interest on the 2016 Bonds will not be adversely affected for federal income tax purposes, the District covenants to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income

with respect to the 2016 Bonds and specifically covenants, without limiting the generality of the foregoing, as follows:

(a) Private Activity. The District will take no action or refrain from taking any action or make any use of the proceeds of the 2016 Bonds or of any other moneys or property which would cause the 2016 Bonds to be “private activity bonds” within the meaning of Section 141 of the Code;

(b) Arbitrage. The District will make no use of the proceeds of the 2016 Bonds or of any other amounts or property, regardless of the source, or take any action or refrain from taking any action which will cause the 2016 Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code;

(c) Federal Guarantee. The District will make no use of the proceeds of the 2016 Bonds or take or omit to take any action that would cause the 2016 Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Code;

(d) Information Reporting. The District will take or cause to be taken all necessary action to comply with the informational reporting requirement of Section 149(e) of the Code necessary to preserve the exclusion of interest on the 2016 Bonds pursuant to Section 103(a) of the Code;

(e) Hedge Bonds. The District will make no use of the proceeds of the 2016 Bonds or any other amounts or property, regardless of the source, or take any action or refrain from taking any action that would cause the 2016 Bonds to be considered “hedge bonds” within the meaning of Section 149(g) of the Code unless the District takes all necessary action to assure compliance with the requirements of Section 149(g) of the Code to maintain the exclusion from gross income of interest on the 2016 Bonds for federal income tax purposes; and

(f) Miscellaneous. The District will take no action or refrain from taking any action inconsistent with its expectations stated in the Tax Certificate executed by the District in connection with the issuance of the 2016 Bonds and will comply with the covenants and requirements stated therein and incorporated by reference herein.

This Section and the covenants set forth herein shall not be applicable to, and nothing contained herein shall be deemed to prevent the District from causing the Trustee to issue Bonds or to execute and deliver Contracts payable on a parity with the 2016 Bonds, the interest with respect to which has been determined by Bond Counsel to be subject to federal income taxation.

Section 6.07. Waiver of Laws. The District shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension law now or at any time hereafter in force that may affect the covenants and agreements contained in the Indenture or in the 2016 Bonds, and all benefit or advantage of any such law or laws is hereby expressly waived by the District to the extent permitted by law.

Section 6.08. Further Assurances. The District will make, execute and deliver any and all such further indentures, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Indenture and for the better assuring and confirming unto the Owners of the 2016 Bonds of the rights and benefits provided in the Indenture.

Section 6.09. Observance of Laws and Regulations. To the extent necessary to assure its performance hereunder, the District will well and truly keep, observe and perform all valid and lawful obligations or regulations now or hereafter imposed on the District by contract, or prescribed by any law of the United States of America, or of the State, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of any and every right, privilege or franchise now owned or hereafter acquired by the District, respectively, including its right to exist and carry on its business, to the end that such contracts, rights and franchises shall be maintained and preserved, and shall not become abandoned, forfeited or in any manner impaired.

Section 6.10. Compliance with Contracts. The District will neither take nor omit to take any action under any contract if the effect of such act or failure to act would in any manner impair or adversely affect the ability of the District to pay principal of or interest on the 2016 Bonds; and the District will comply with, keep, observe and perform all agreements, conditions, covenants and terms, express or implied, required to be performed by it contained in all other contracts affecting or involving the Water System, to the extent that the District is a party thereto.

Section 6.11. Prosecution and Defense of Suits. The District will preserve and protect the security hereof and the rights of the Trustee to the Taxes and Revenues hereunder and will warrant and defend such rights against all claims and demands of all persons.

Section 6.12. Continuing Disclosure. The District hereby covenants and agrees that it will comply with and carry out all of its obligations under the Continuing Disclosure Agreement to be executed and delivered by the District in connection with the issuance of the 2016 Bonds. Notwithstanding any other provision of the Indenture, failure of the District to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default; however, any Owner or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Section. For purposes of this Section, "Beneficial Owner" means any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any 2016 Bonds (including persons holding 2016 Bonds through nominees, depositories or other intermediaries).

Section 6.13. Additional Contracts and Bonds. The District may, at any time, execute any Contract or issue any Bonds as the case may be, in accordance herewith, provided an Independent Financial Consultant or an Independent Certified Public Accountant shall render to and file with the District and the Trustee a written report certifying that Taxes and Net Revenues for any twelve (12) consecutive calendar months in the eighteen (18) calendar months immediately preceding the issuance of the additional Contracts or Bonds adjusted as set forth below are at least equal to 125% of Debt Service (including for purposes of such calculation the obligation of the District to repay costs related to any surety bond, reserve credit facility or other reserve fund funding instrument), assuming such additional Contracts had been executed or additional Bonds had been issued at the beginning of such twelve-month period.

For purposes of calculating Net Revenues as set forth in the preceding paragraph, adjustments to the computations of Net Revenues may be made for the following:

(1) any change in service charges which has been adopted subsequent to the commencement of the twelve-month period but prior to the date of issuance or execution of the additional Bonds or Contracts;

(2) customers added to the Water System subsequent to the commencement of the twelve-month period but prior to the date of issuance or execution of the additional Bonds or Contracts;

(3) the estimated change in Net Revenues which will result from the connection of existing residences or businesses to the Water System within one year following completion of any project to be funded or system to be acquired from the proceeds of such additional Bonds or Contracts; and

(4) the estimated change in Net Revenues which will result from services provided under any long-term, guaranteed contract that extends for the life of the additional Bonds or Contracts if entered into subsequent to the commencement of the twelve-month period but prior to the date of issuance or execution of the additional Bonds or Contracts.

Notwithstanding the foregoing, Bonds issued or Contracts executed to refund Bonds or Contracts may be delivered without satisfying the conditions set forth above if Debt Service in each Fiscal Year after the Fiscal Year in which such Bonds are issued or Contracts executed is not greater than Debt Service would have been in each such Fiscal Year prior to the issuance of such Bonds or execution of such Contracts.

In addition to the foregoing, in the event any amounts owed to any insurer are past due and owing, such insurer must provide written consent to the issuance of any Bonds or the execution of any additional Contracts.

Section 6.14. Against Sale or Other Disposition of Property. The District will not enter into any agreement or lease which impairs the operation of the Water System or any part thereof necessary to secure adequate Revenues for the payment of the principal of and interest on the 2016 Bonds, or which would otherwise impair the operation of the Water System. Any real or personal property which has become nonoperative or which is not needed for the efficient and proper operation of the Water System, or any material or equipment which has become worn out, may be sold if such sale will not impair the ability of the District to pay the principal of and interest on the 2016 Bonds and if the proceeds of such sale are deposited in the Revenue Fund.

Nothing herein shall restrict the ability of the District to sell any portion of the Water System if such portion is immediately repurchased by the District and if such arrangement cannot by its terms result in the purchaser of such portion of the Water System exercising any remedy which would deprive the District of or otherwise interfere with its right to own and operate such portion of the Water System.

Section 6.15. Against Competitive Facilities. To the extent that it can so legally obligate itself, the District covenants that it will not acquire, construct, maintain or operate and will not, to the extent permitted by law and within the scope of its powers, permit any other public or private agency, corporation, district or political subdivision or any person whomsoever to acquire, construct, maintain or operate within the District any water system competitive with the Water System.

Section 6.16. Maintenance and Operation of the Water System. The District will maintain and preserve the Water System in good repair and working order at all times and will operate the Water System in an efficient and economical manner and will pay all Operation and Maintenance Costs as they become due and payable.

Section 6.17. Payment of Claims. The District will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien on the Taxes or Revenues or the funds or accounts created hereunder or on any funds in the hands of the District pledged to pay the principal of or interest on the 2016 Bonds or to the Owners prior or superior to the lien under the Indenture.

Section 6.18. Insurance.

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

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

If such Net Proceeds exceed the costs of such reconstruction, repair or replacement portion of the Water System, and/or the cost of the construction of additions, betterments, extensions or improvements to the Water System, then the excess Net Proceeds shall be deposited in the Revenue Fund. If such Net Proceeds are sufficient to enable the District to retire all of the 2016 Bonds as well as all Bonds and Contracts then remaining unpaid prior to their final respective due dates, the District may elect not to reconstruct, repair or replace the damaged or destroyed portion of the Water System, and/or not to construct other additions, betterments, extensions or improvements to the Water System; and thereupon such Net Proceeds shall be deposited to the Payment Fund.

(b) The District will procure and maintain such other insurance as it shall deem advisable or necessary to protect its interests and the interests of the 2016 Bond Owners, which insurance shall afford protection in such amounts and against such risks as are usually covered in connection with municipal water systems similar to the Water System.

(c) Any insurance required to be maintained by paragraph (a) above and, if the District determines to procure and maintain insurance pursuant to paragraph (b) above, such insurance, may be maintained under a self-insurance program so long as such self-insurance is maintained in the amounts and manner usually maintained in connection with water systems similar to the Water System and is, in the opinion of an accredited actuary, actuarially sound.

Section 6.19. Payment of Taxes and Compliance with Governmental Regulations. The District will pay and discharge all taxes, assessments and other governmental charges which may hereafter be lawfully imposed upon the Water System, or any part thereof or upon the Revenues when the same shall become due. The District will duly observe and conform with all valid regulations and requirements of any governmental authority relative to the operation of the Water System, or any part

thereof, but the District shall not be required to comply with any regulations or requirements so long as the validity or application thereof shall be contested in good faith.

Section 6.20. Amount of Rates and Charges. To the fullest extent permitted by law, the District shall fix and prescribe, at the commencement of each Fiscal Year, rates and charges for the Water System which are reasonably expected to be at least sufficient to yield during each Fiscal Year Net Revenues equal to one hundred twenty-five percent (125%) of the Debt Service for such Fiscal Year (including for purposes of such calculation the obligation of the District to repay costs related to any surety bond, reserve credit facility or other reserve fund funding instrument). The District may make adjustments from time to time in such rates and charges and may make such classification thereof as it deems necessary, but shall not reduce the rates and charges then in effect unless the Taxes and Net Revenues from such reduced rates and charges will at all times be sufficient to meet the requirements of this Section. When the 1996 Certificates are no longer Outstanding, then the Interest Subsidy Payments will be deducted from Net Revenues for purposes of the coverage calculations of this Section.

Section 6.21. Collection of Rates and Charges. The District will have in effect at all times by-laws, rules and regulations requiring each customer to pay the rates and charges applicable to the Water System to such land and providing for the billing thereof and for a due date and a delinquency date for each bill. In each case where such bill remains unpaid in whole or in part after it becomes delinquent, the District may discontinue such service from the Water System, and such service shall not thereafter be recommenced except in accordance with the District laws or rules and regulations governing such situations of delinquency.

Section 6.22. Eminent Domain Proceeds. If all or any part of the Water System shall be taken by eminent domain proceedings, the Net Proceeds thereof shall be applied as follows:

(a) If: (1) the District files with the Trustee a certificate showing: (i) the estimated loss of annual Net Revenues, if any, suffered or to be suffered by the District by reason of such eminent domain proceedings; (ii) a general description of the additions, betterments, extensions or improvements to the Water System proposed to be acquired and constructed by the District from such Net Proceeds; and (iii) an estimate of the additional annual Net Revenues to be derived from such additions, betterments, extensions or improvements; and (2) the District, on the basis of such certificate filed with the Trustee, determines that the estimated additional annual Net Revenues will sufficiently offset the estimated loss of annual Net Revenues resulting from such eminent domain proceedings so that the ability of the District to meet its obligations hereunder will not be substantially impaired (which determination shall be final and conclusive), then the District shall promptly proceed with the acquisition and construction of such additions, betterments, extensions or improvements substantially in accordance with such certificate and such Net Proceeds shall be applied for the payment of the costs of such acquisition and construction, and any balance of such Net Proceeds not required by the District for such purpose shall be deposited in the Revenue Fund.

(b) If the foregoing conditions are not met, then such Net Proceeds shall be applied by the District in part to the payment of 2016 Bonds in the same proportion which the aggregate unpaid principal balance of 2016 Bonds then bears to the aggregate unpaid principal amount of such Bonds and Contracts.

Section 6.23. Enforcement of Contracts. The District will not voluntarily consent to or permit any rescission of, nor will it consent to any amendment to or otherwise take any action under

or in connection with any contracts previously or hereafter entered into if such rescission or amendment would in any manner impair or adversely affect the ability of the District to pay principal of and interest on the 2016 Bonds.

ARTICLE VII

EVENTS OF DEFAULT AND REMEDIES OF 2016 BOND OWNERS

Section 7.01. Events of Default. The following events shall be Events of Default hereunder:

(a) Default by the District in the due and punctual payment of the principal of any 2016 Bonds, the principal of any Bonds or the principal with respect to any Contract, when and as the same shall become due and payable, whether at maturity as therein expressed, by acceleration, or otherwise.

(b) Default by the District in the due and punctual payment of any installment of interest on any 2016 Bonds, any installment of interest on any Bond or any installment of interest with respect to any Contract, when and as the same shall become due and payable.

(c) Default by the District in the observance of any of the other covenants, agreements or conditions on its part in the Indenture or in the 2016 Bonds, or required by any Bond or indenture relating thereto or by any Contract, if such default shall have continued for a period of sixty (60) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the District by the Trustee or by the Owners of not less than a majority in aggregate principal amount of 2016 Bonds Outstanding, a majority in principal amount of such Bond outstanding, or a majority in principal amount outstanding with respect to such Contract, as applicable; provided, however, that if in the reasonable opinion of the District the default stated in the notice can be corrected, but not within such sixty (60) day period and corrective action is instituted by the District within such sixty (60) day period and diligently pursued in good faith until the default is corrected such default shall not be an Event of Default hereunder.

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

(e) Payment of the principal of any Bond or with respect to any Contract is accelerated in accordance with its terms.

Section 7.02. Remedies Upon Event of Default. If any Event of Default specified in Section 7.01(d) or (e) shall occur and be continuing, the Trustee shall, and for any other Event of Default, the Trustee may, and, at the written direction of the Owners of not less than a majority in aggregate principal amount of the 2016 Bonds at the time Outstanding, shall, in each case, upon notice in writing to the District, declare the principal of all of the 2016 Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and

shall be immediately due and payable, anything in the Indenture or in the 2016 Bonds contained to the contrary notwithstanding.

Nothing contained herein shall permit or require the Trustee to accelerate payments due under the Indenture if the District is not in default of its obligation hereunder.

Any such declaration is subject to the condition that if, at any time after such declaration and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the District shall deposit with the Trustee a sum sufficient to pay all the principal of and installments of interest on the 2016 Bonds payment of which is overdue, with interest on such overdue principal at the rate borne by the respective 2016 Bonds to the extent permitted by law, and the reasonable charges and expenses of the Trustee, or shall deposit with the applicable trustee with respect to any Contract a sum sufficient to pay all the principal and installments of interest with respect to such Contract payment of which is overdue, with interest on such overdue principal at the rate borne by such Contract to the extent permitted by law, and the reasonable charges and expenses of the applicable trustee with respect to such Contract, or shall deposit with the applicable trustee with respect to any Bond a sum sufficient to pay all the principal of and installment of interest on such Bond payment of which is overdue, with interest on such overdue principal at the rate borne by such Bonds to the extent permitted by law, and the reasonable charges and expenses of the applicable trustee with respect to such Bonds, and any and all other Events of Default known to the Trustee or the applicable trustee with respect to such Contract or Bonds (other than in the payment of principal of and interest on the 2016 Bonds, payment of principal and interest with respect to such Contract or payment of principal and interest on such Bond, as applicable, due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case the Trustee shall on behalf of the Owners of all of the 2016 Bonds, rescind and annul such declaration and its consequences and waive such Event of Default; but no such rescission and annulment shall extend to or shall affect any subsequent Event of Default, or shall impair or exhaust any right or power consequent thereon.

Section 7.03. Application of Revenues and Other Funds After Default. If an Event of Default shall occur and be continuing, all Revenues held or thereafter received by the Trustee and any other funds then held or thereafter received by the Trustee under any of the provisions of the Indenture (other than amounts held in the Rebate Fund) shall be applied in the following order:

(a) To the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Owners of the 2016 Bonds and payment of reasonable fees and expenses of the Trustee (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Indenture;

(b) To the payment of Operation and Maintenance Costs; and

(c) To the payment of the principal of and interest then due on the 2016 Bonds (upon presentation of the 2016 Bonds to be paid, and stamping or otherwise noting thereon of the payment if only partially paid, or surrender thereof if fully paid), in accordance with the provisions of the Indenture, the payment of the principal and interest then due with respect to such Contract in accordance with the provisions thereof and the payment of the principal of and interest then due on such Bonds in accordance with the provisions thereof and of any indenture related thereto, in the following order of priority:

First: To the payment to the persons entitled thereto of all installments of interest then due on the 2016 Bonds, with respect to such Contract or on such Bonds, as applicable, in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid principal of any 2016 Bonds, principal with respect to such Contract or principal of any Bonds, as applicable, which shall have become due, whether at maturity or by acceleration, with interest on the overdue principal at the rate of eight percent (8%) per annum, and, if the amount available shall not be sufficient to pay in full all the 2016 Bonds, all amounts due under such Contract or all the Bonds, as applicable, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the persons entitled thereto, without any discrimination or preference; and

Third: If there shall exist any remainder after the foregoing payments, such remainder shall be paid to the District.

Section 7.04. Trustee to Represent 2016 Bond Owners. The Trustee is hereby irrevocably appointed (and the successive respective Owners of the 2016 Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney in fact of the Owners of the 2016 Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Owners under the provisions of the 2016 Bonds or the Indenture and applicable provisions of law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the 2016 Bond Owners, the Trustee in its discretion may, and upon the written request of the Owners of a majority in aggregate principal amount of the 2016 Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, shall proceed to protect or enforce its rights or the rights of such Owners by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained herein, or in aid of the execution of any power herein granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Owners under the 2016 Bonds or the Indenture or any law; and upon instituting such proceeding, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the Revenues and other assets pledged under the Indenture, pending such proceedings. All rights of action under the Indenture or the 2016 Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the 2016 Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Owners of such 2016 Bonds, subject to the provisions of the Indenture.

Section 7.05. 2016 Bond Owners' Direction of Proceedings. Anything in the Indenture to the contrary notwithstanding, the Owners of a majority in aggregate principal amount of the 2016 Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, and upon indemnification of the Trustee to its reasonable satisfaction to direct the method of conduct in all remedial proceedings taken by the Trustee hereunder, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Indenture, and that the Trustee shall have the right to decline to follow any such direction which in

the opinion of the Trustee would be unjustly prejudicial to 2016 Bond Owners not parties to such direction.

Section 7.06. Suit by Owners. No Owner of any 2016 Bonds shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture with respect to such 2016 Bonds, unless: (a) such Owners shall have given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of not less than fifty percent (50%) in aggregate principal amount of the 2016 Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such suit, action or proceeding in its own name; (c) such Owner or Owners shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (d) the Trustee shall have failed to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee; and (e) no direction inconsistent with such written request shall have been given to the Trustee during such sixty (60) day period by the Owners of a majority in aggregate principal amount of the 2016 Bonds then Outstanding.

Such notification, request, tender of indemnity and refusal or omission are hereby declared, in every case, to be conditions precedent to the exercise by any Owner of 2016 Bonds of any remedy hereunder or under law; it being understood and intended that no one or more Owners of 2016 Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Owners of 2016 Bonds, or to enforce any right under the 2016 Bonds, the Indenture, or applicable law with respect to the 2016 Bonds, except in the manner herein provided, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner herein provided and for the benefit and protection of all Owners of the Outstanding 2016 Bonds, subject to the provisions of the Indenture.

Section 7.07. Absolute Obligation of the District. Nothing in this Section 7.07 or in any other provision of the Indenture or in the 2016 Bonds shall affect or impair the obligation of the District, which is absolute and unconditional, to pay the principal of and interest on the 2016 Bonds to the respective Owners of the 2016 Bonds at their respective dates of maturity, but only out of the Revenues and other assets herein pledged therefor, or affect or impair the right of such Owners, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the 2016 Bonds.

Section 7.08. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Trustee or to the Owners of the 2016 Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given hereunder or now or hereafter existing at law or in equity or otherwise.

Section 7.09. No Waiver of Default. No delay or omission of the Trustee or of any Owner of the 2016 Bonds to exercise any right or power arising upon the occurrence of any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or an acquiescence therein.

ARTICLE VIII

THE TRUSTEE

Section 8.01. Duties, Immunities and Liabilities of Trustee.

(a) The Trustee shall, prior to an Event of Default, and after the curing or waiving of all Events of Default which may have occurred, perform such duties and only such duties as are expressly and specifically set forth in the Indenture and no implied covenants or duties shall be read into the Indenture against the Trustee. The Trustee shall, during the existence of any Event of Default (which has not been cured or waived), exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

(b) The District may remove the Trustee at any time, unless an Event of Default shall have occurred and then be continuing, and shall remove the Trustee if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of not less than a majority in aggregate principal amount of the 2016 Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee shall cease to be eligible in accordance with subsection (e) of this Section, or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property shall be appointed, or any public officer shall take control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee and thereupon shall promptly appoint a successor Trustee by an instrument in writing.

(c) The Trustee may at any time resign by giving written notice of such resignation to the District and by giving the 2016 Bond Owners notice of such resignation by mail at the addresses shown on the Registration Books. Upon receiving such notice of resignation, the District shall promptly appoint a successor Trustee by an instrument in writing.

(d) Any removal or resignation of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee. If no successor Trustee shall have been appointed and have accepted appointment within forty five (45) days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee or any 2016 Bond Owner (on behalf of himself and all other 2016 Bond Owners) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under the Indenture shall signify its acceptance of such appointment by executing and delivering to the District and to its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee herein; but, nevertheless at the Written Request of the District or the request of the successor Trustee, such predecessor Trustee shall execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under the Indenture and shall pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions herein set forth. Upon request of the successor Trustee, the District shall execute and deliver any and all instruments as may be reasonably required for more fully and certainly

vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as provided in this subsection, the District shall mail or cause the successor trustee to mail a notice of the succession of such Trustee to the trusts hereunder to each rating agency which is then rating the 2016 Bonds and to the 2016 Bond Owners at the addresses shown on the Registration Books. If the District fails to mail such notice within fifteen (15) days after acceptance of appointment by the successor Trustee, the successor Trustee shall cause such notice to be mailed at the expense of the District.

(e) Any Trustee appointed under the provisions of this Section in succession to the Trustee shall be a trust company, banking association or bank having the powers of a trust company, having a combined capital and surplus of at least Seventy Five Million Dollars (\$75,000,000), and subject to supervision or examination for federal or state authority. If such bank, banking association or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of this subsection the combined capital and surplus of such trust company, banking association or bank shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of this subsection (e), the Trustee shall resign immediately in the manner and with the effect specified in this Section.

Section 8.02. Merger or Consolidation. Any trust company, banking association or bank into which the Trustee may be merged or converted or with which it may be consolidated or any trust company, banking association or bank resulting from any merger, conversion or consolidation to which it shall be a party or any trust company, banking association or bank to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided that such trust company, banking association or bank shall be eligible under subsection (e) of Section 8.01, shall be the successor to such Trustee, without the execution or filing of any paper or any further act, anything herein to the contrary notwithstanding.

Section 8.03. Liability of Trustee.

(a) The recitals of facts herein and in the 2016 Bonds shall be taken as statements of the District, and the Trustee shall not assume responsibility for the correctness of the same, or make any representations as to the validity or sufficiency of the Indenture or the 2016 Bonds, nor shall the Trustee incur any responsibility in respect thereof, other than as expressly stated herein in connection with the respective duties or obligations herein or in the 2016 Bonds assigned to or imposed upon it. The Trustee shall, however, be responsible for its representations contained in its certificate of authentication on the 2016 Bonds. The Trustee shall not be liable in connection with the performance of its duties hereunder, except for its own negligence or willful misconduct. The Trustee may become the Owner of 2016 Bonds with the same rights it would have if it were not Trustee, and, to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of 2016 Bond Owners, whether or not such committee shall represent the Owners of a majority in principal amount of the 2016 Bonds then Outstanding.

(b) The Trustee shall not be liable for any error of judgment made in good faith by a responsible officer, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts.

(c) The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of not less than a majority (or such other percentage provided for herein) in aggregate principal amount of the 2016 Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under the Indenture.

(d) The Trustee shall not be liable for any action taken by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by the Indenture.

(e) The Trustee shall not be deemed to have knowledge of any Default or Event of Default hereunder or any other event which, with the passage of time, the giving of notice, or both, would constitute an Event of Default hereunder unless and until a Responsible Officer of the Trustee shall have actual knowledge of such event or the Trustee shall have been notified in writing, in accordance with Section 11.07, of such event by the District or the Owners of not less than fifty percent (50%) of the 2016 Bonds then Outstanding. Except as otherwise expressly provided herein, the Trustee shall not be bound to ascertain or inquire as to the performance or observance by the District of any of the terms, conditions, covenants or agreements herein of any of the documents executed in connection with the 2016 Bonds, or as to the existence of an Event of Default thereunder or an event which would, with the giving of notice, the passage of time, or both, constitute an Event of Default thereunder. The Trustee shall not be responsible for the validity, effectiveness or priority of any collateral given to or held by it.

(f) No provision of the Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties hereunder, or in the exercise of any of its rights or powers.

(g) The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by the Indenture at the request, order or direction of any of the Owners pursuant to the Indenture, unless such Owners shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction. No permissive power, right or remedy conferred upon the Trustee hereunder shall be construed to impose a duty to exercise such power, right or remedy.

(h) Whether or not herein expressly so provided, every provision of the Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Article VIII.

(i) The Trustee shall have no responsibility or liability with respect to any information, statement, or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the 2016 Bonds.

(j) The immunities extended to the Trustee also extend to its directors, officers, employees and agents.

(k) The Trustee may execute any of the trusts or powers of the Indenture and perform any of its duties through attorneys, agents and receivers and shall not be answerable for the conduct of the same if appointed by it with reasonable care.

(l) The Trustee shall not be considered in breach of or in default in its obligations hereunder or progress in respect thereto in the event of enforced delay (“unavoidable delay”) in the performance of such obligations due to unforeseeable causes beyond its control and without its fault or negligence, including, but not limited to, Acts of God or of the public enemy or terrorists, acts of a government, acts of the other party, fires, floods, epidemics, quarantine restrictions, strikes, freight embargoes, earthquakes, explosion, mob violence, riot, inability to procure or general sabotage or rationing of labor, equipment, facilities, sources of energy, material or supplies in the open market, litigation or arbitration involving a party or others relating to zoning or other governmental action or inaction pertaining to the Water System, malicious mischief, condemnation, and unusually severe weather or delays of suppliers or subcontractors due to such causes or any similar event and/or occurrences beyond the control of the Trustee.

(m) The Trustee agrees to accept and act upon instructions or directions pursuant to the Indenture sent by unsecured e-mail, facsimile transmission or other similar unsecured electronic methods, provided, however, that, for purposes of this Indenture, an e-mail does not constitute a notice, request or other communication hereunder but rather the portable document format or similar attachment attached to such e-mail shall constitute a notice, request or other communication hereunder and further that the Trustee shall have received an incumbency certificate listing persons designated to give such instructions or directions and containing specimen signatures of such designated persons, which such incumbency certificate shall be amended and replaced whenever a person is to be added or deleted from the listing. If the District elects to give the Trustee e-mail or facsimile instructions (or instructions by a similar electronic method) and the Trustee in its discretion elects to act upon such instructions, the Trustee’s understanding of such instructions shall be deemed controlling. The Trustee shall not be liable for any losses, costs or expenses arising directly or indirectly from the Trustee’s reliance upon and compliance with such instructions notwithstanding such instructions conflict or are inconsistent with a subsequent written instruction. The District agrees to assume all risks arising out of the use of such electronic methods to submit instructions and directions to the Trustee, including without limitation the risk of the Trustee acting on unauthorized instructions, and the risk of interception and misuse by third parties.

(n) The Trustee shall not be concerned with or accountable to anyone for the subsequent use or application of any moneys which shall be released or withdrawn in accordance with the provisions hereof.

(o) The Trustee shall be under no obligation to exercise any of the rights or powers vested in it hereby at the request, order or direction of any of the Owners pursuant to the provisions hereof unless such Owners shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which may be incurred therein or thereby.

(p) The permissive right of the Trustee to do things enumerated herein shall not be construed as a duty and it shall not be answerable for other than its negligence or willful misconduct.

Section 8.04. Right to Rely on Documents. The Trustee shall be protected in acting upon any notice, resolution, requisition, request, consent, order, certificate, report, opinion, notes, direction, facsimile transmission, electronic mail or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee may consult with counsel, who may be counsel of or to the District, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith.

The Trustee may treat the Owners of the 2016 Bonds appearing in the Trustee's Registration Books as the absolute owners of the 2016 Bonds for all purposes and the Trustee shall not be affected by any notice to the contrary.

Whenever in the administration of the trusts imposed upon it by the Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a Certificate, Request or Requisition of the District, and such Certificate, Request or Requisition shall be full warrant to the Trustee for any action taken or suffered in good faith under the provisions of the Indenture in reliance upon such Certificate, Request or Requisition, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as it may deem reasonable.

Section 8.05. Preservation and Inspection of Documents. All documents received by the Trustee under the provisions of the Indenture shall be retained in their respective possession and shall be subject at all reasonable times to the inspection of the District and any 2016 Bond Owner, and their agents and representatives duly authorized in writing, at reasonable hours and under reasonable conditions.

Section 8.06. Compensation and Indemnification. The District shall pay to the Trustee from time to time all reasonable compensation for all services rendered under the Indenture, and also all reasonable expenses, charges, legal and consulting fees and other disbursements and those of their attorneys, agents and employees, incurred in and about the performance of their powers and duties under the Indenture.

The District shall indemnify, defend and hold harmless the Trustee, its officers, employees, directors and agents from and against any loss, costs, claims, liability or expense (including fees and expenses of its attorneys and advisors) incurred without negligence or willful misconduct on its part, arising out of or in connection with the execution of the Indenture, acceptance or administration of this trust, including costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers hereunder. The rights of the Trustee and the obligations of the District under this Section 8.06 shall survive removal or resignation of the Trustee hereunder or the discharge of the 2016 Bonds and the Indenture.

ARTICLE IX

MODIFICATION OR AMENDMENT OF THE INDENTURE

Section 9.01. Amendments Permitted.

(a) The Indenture and the rights and obligations of the District and of the Owners of the 2016 Bonds and of the Trustee may be modified or amended from time to time and at any time by an indenture or indentures supplemental thereto, which the District and the Trustee may enter into when the written consent of the Owners of a majority in aggregate principal amount of all 2016 Bonds then Outstanding, exclusive of 2016 Bonds disqualified as provided in Section 11.09 hereof, shall have been filed with the Trustee. No such modification or amendment shall: (1) extend the fixed maturity of any 2016 Bonds, or reduce the amount of principal thereof, or extend the time of payment, or change the rate of interest or the method of computing the rate of interest thereon, or extend the time of

payment of interest thereon, without the consent of the Owner of each 2016 Bond so affected; or (2) reduce the aforesaid percentage of 2016 Bonds the consent of the Owners of which is required to affect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture except as permitted herein, or deprive the Owners of the 2016 Bonds of the lien created by the Indenture on such Revenues and other assets except as permitted herein, without the consent of the Owners of all of the 2016 Bonds then Outstanding. It shall not be necessary for the consent of the 2016 Bond Owners to approve the particular form of any Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof. Promptly after the execution by the District and the Trustee of any Supplemental Indenture pursuant to this subsection (a), the Trustee shall mail a notice, setting forth in general terms the substance of such Supplemental Indenture, to each Rating Agency and the Owners of the 2016 Bonds at the respective addresses shown on the Registration Books. Any failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Indenture.

(b) The Indenture and the rights and obligations of the District, the Trustee and the Owners of the 2016 Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture, which the District and the Trustee may enter into without the consent of any 2016 Bond Owners, if the Trustee shall receive an opinion of Bond Counsel to the effect that the provisions of such Supplemental Indenture shall not materially adversely affect the interests of the Owners of the Outstanding 2016 Bonds, including, without limitation, for any one or more of the following purposes:

(1) to add to the covenants and agreements of the District contained in the Indenture other covenants and agreements thereafter to be observed, to pledge or assign additional security for the 2016 Bonds (or any portion thereof), or to surrender any right or power herein reserved to or conferred upon the District;

(2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture, or in regard to matters or questions arising under the Indenture, as the District may deem necessary or desirable;

(3) to modify, amend or supplement the Indenture in such manner as to permit the qualification hereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereunder in effect, and to add such other terms conditions and provisions as may be permitted by said act or similar federal statute;

(4) to modify, amend or supplement the Indenture in such manner as to cause interest on the 2016 Bonds to remain excludable from gross income under the Code; and

(5) to modify, amend or supplement the Indenture in connection with the issuance of additional Contracts or Bonds in accordance with the provisions of Section 6.13 hereof.

(c) The Trustee may in its discretion, but shall not be obligated to, enter into any such Supplemental Indenture authorized by subsections (a) or (b) of this Section which materially adversely affects the Trustee's own rights, duties or immunities under the Indenture or otherwise.

(d) Prior to the Trustee entering into any Supplemental Indenture hereunder, there shall be delivered to the Trustee an opinion of Bond Counsel stating, in substance, that such Supplemental Indenture has been adopted in compliance with the requirements of the Indenture and that the adoption of such Supplemental Indenture will not, in and of itself, adversely affect the exclusion of interest on the 2016 Bonds from federal income taxation and from state income taxation.

Section 9.02. Effect of Supplemental Indenture. Upon the execution of any Supplemental Indenture pursuant to this Article, the Indenture shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the District, the Trustee and all Owners of 2016 Bonds Outstanding shall thereafter be determined, exercised and enforced thereunder subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture shall be deemed to be part of the terms and conditions of the Indenture for any and all purposes.

Section 9.03. Endorsement of 2016 Bonds; Preparation of New 2016 Bonds. 2016 Bonds delivered after the execution of any Supplemental Indenture pursuant to this Article may, and if the Trustee so determines shall, bear a notation by endorsement or otherwise in form approved by the District and the Trustee as to any modification or amendment provided for in such Supplemental Indenture, and, in that case, upon demand on the Owner of any 2016 Bonds Outstanding at the time of such execution and presentation of his or her 2016 Bonds for the purpose at the Office of the Trustee or at such additional offices as the Trustee may select and designate for that purpose, a suitable notation shall be made on such 2016 Bonds. If the Supplemental Indenture shall so provide, new 2016 Bonds so modified as to conform, in the opinion of the District and the Trustee, to any modification or amendment contained in such Supplemental Indenture, shall be prepared and executed by the District and authenticated by the Trustee, and upon demand on the Owners of any 2016 Bonds then Outstanding shall be exchanged at the Office of the Trustee, without cost to any 2016 Bond Owner, for 2016 Bonds then Outstanding, upon surrender for cancellation of such 2016 Bonds, in equal aggregate principal amount of the same maturity.

Section 9.04. Amendment of Particular 2016 Bonds. The provisions of this Article shall not prevent any 2016 Bond Owner from accepting any amendment as to the particular 2016 Bonds held by him.

ARTICLE X

DEFEASANCE

Section 10.01. Discharge of Indenture. The 2016 Bonds may be paid by the District in any of the following ways, provided that the District also pays or causes to be paid any other sums payable hereunder by the District:

- (a) by paying or causing to be paid the principal of and interest on the 2016 Bonds, as and when the same become due and payable;
- (b) by depositing with the Trustee, in trust, at or before maturity, money or securities in the necessary amount (as provided in Section 10.03) to pay all 2016 Bonds then Outstanding; or

(c) by delivering to the Trustee, for cancellation by it, all of the 2016 Bonds then Outstanding.

If the District shall also pay or cause to be paid all other sums payable hereunder by the District, then and in that case, at the election of the District (as evidenced by a Certificate of the District, filed with the Trustee, signifying the intention of the District to discharge all such indebtedness and the Indenture), and notwithstanding that any 2016 Bonds shall not have been surrendered for payment, the Indenture and the pledge of Revenues and other assets made under the Indenture and all covenants, agreements and other obligations of the District under the Indenture shall cease, terminate, become void and be completely discharged and satisfied. In such event, upon the Written Request of the District, the Trustee shall execute and deliver to the District all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over, transfer, assign or deliver all moneys or securities or other property held by it pursuant to the Indenture which are not required for the payment of 2016 Bonds not theretofore surrendered for such payment to the District.

Section 10.02. Discharge of Liability on 2016 Bonds. Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount (as provided in Section 10.03) to pay any Outstanding 2016 Bonds (upon the maturity of such 2016 Bonds), then all liability of the District in respect of such 2016 Bonds shall cease, terminate and be completely discharged, and the Owners thereof shall thereafter be entitled only to payment out of such money or securities deposited with the Trustee as aforesaid for their payment, subject however, to the provisions of Section 10.04.

The District may at any time surrender to the Trustee for cancellation by it any 2016 Bonds previously issued and delivered, which the District may have acquired in any manner whatsoever, and such 2016 Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

Section 10.03. Deposit of Money or Securities with Trustee. Whenever in the Indenture it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the necessary amount to pay any 2016 Bonds, the money or securities so to be deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to the Indenture and shall be:

(a) lawful money of the United States of America in an amount equal to the principal amount of such 2016 Bonds and all unpaid interest thereon to maturity; or

(b) Federal Securities the principal of and interest on which when due will, in the written opinion of an Independent Certified Public Accountant or Independent Financial Consultant filed with the District and the Trustee, provide money sufficient to pay the principal of and all unpaid interest to maturity on the 2016 Bonds to be paid, as such principal and interest becomes due;

provided, in each case, that: (i) the Trustee shall have been irrevocably instructed (by the terms of the Indenture or by Written Request of the District) to apply such money to the payment of such principal of and interest on such 2016 Bonds; and (ii) the District shall have delivered to the Trustee an opinion of Bond Counsel addressed to the District and the Trustee to the effect that such 2016 Bonds have been discharged in accordance with the Indenture (which opinion may rely upon and assume the accuracy of the Independent Certified Public Accountants or Independent Financial Consultant's opinion referred to above).

Section 10.04. Payment of 2016 Bonds After Discharge of Indenture. Notwithstanding any provisions of the Indenture, any moneys held by the Trustee in trust for the payment of the principal of, or interest on, any 2016 Bonds and remaining unclaimed for two (2) years after the principal of all of the 2016 Bonds has become due and payable (whether at maturity or by acceleration as provided in the Indenture), if such moneys were so held at such date, or two (2) years after the date of deposit of such moneys if deposited after said date when all of the 2016 Bonds became due and payable, shall be repaid to the District free from the trusts created by the Indenture upon receipt of an indemnification agreement acceptable to the District and the Trustee indemnifying the Trustee with respect to claims of Owners of 2016 Bonds which have not yet been paid, and all liability of the Trustee with respect to such moneys shall thereupon cease; provided, however, that before the repayment of such moneys to the District as aforesaid, the Trustee shall at the written direction of the District (at the cost of the District) first mail to the Owners of 2016 Bonds which have not yet been paid, at the addresses shown on the Registration Books, a notice, in such form as may be deemed appropriate by the Trustee with respect to the 2016 Bonds so payable and not presented and with respect to the provisions relating to the repayment to the District of the moneys held for the payment thereof.

ARTICLE XI

MISCELLANEOUS

Section 11.01. Liability of District Limited to Revenues. Notwithstanding anything in the Indenture or the 2016 Bonds, but subject to the priority of payment with respect to Operation and Maintenance Costs, the District shall not be required to advance any moneys derived from any source other than the Revenues, the Revenue Fund and other moneys pledged under the Indenture for any of the purposes in the Indenture mentioned, whether for the payment of the principal of or interest on the 2016 Bonds or for any other purpose of the Indenture. Nevertheless, the District may, but shall not be required to, advance for any of the purposes hereof any funds of the District which may be made available to it for such purposes.

The obligation of the District to pay interest and principal on the 2016 Bonds is a special obligation of the District payable solely from the Net Revenues, and does not constitute a debt of the District or of the State of California or of any political subdivision thereof (other than the District) in contravention of any constitutional or statutory debt limitation or restriction.

Section 11.02. Successor Is Deemed Included in All References to Predecessor. Whenever in the Indenture either the District or the Trustee is named or referred to, such reference shall be deemed to include the successors or assigns thereof, and all the covenants and agreements in the Indenture contained by or on behalf of the District or the Trustee shall bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

Section 11.03. Limitation of Rights to Parties and 2016 Bond Owners. Nothing in the Indenture or in the 2016 Bonds expressed or implied is intended or shall be construed to give to any person other than the District, the Trustee and the Owners of the 2016 Bonds, any legal or equitable right, remedy or claim under or in respect of the Indenture or any covenant, condition or provision therein or herein contained; and all such covenants, conditions and provisions are and shall be held to be for the sole and exclusive benefit of the District, the Trustee and the Owners of the 2016 Bonds.

Section 11.04. Waiver of Notice; Requirement of Mailed Notice. Whenever in the Indenture the giving of notice by mail or otherwise is required, the giving of such notice may be waived in writing

by the person entitled to receive such notice and in any such case the giving or receipt of such notice shall not be a condition precedent to the validity of any action taken in reliance upon such waiver. Whenever in the Indenture any notice shall be required to be given by mail, such requirement shall be satisfied by the deposit of such notice in the United States mail, postage prepaid, by first class mail.

Section 11.05. Destruction of 2016 Bonds. Whenever in the Indenture provision is made for the cancellation by the Trustee and the delivery to the District of any 2016 Bonds, the Trustee shall destroy such 2016 Bonds as may be allowed by law, and deliver a certificate of such destruction to the District.

Section 11.06. Severability of Invalid Provisions. If any one or more of the provisions contained in the Indenture or in the 2016 Bonds 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 the Indenture and such invalidity, illegality or unenforceability shall not affect any other provision of the Indenture, and the Indenture shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein. The District hereby declares that it would have entered into the Indenture and each and every other Section, paragraph, sentence, clause or phrase hereof and authorized the issuance of the 2016 Bonds pursuant thereto irrespective of the fact that any one or more Sections, paragraphs, sentences, clauses or phrases of the Indenture may be held illegal, invalid or unenforceable.

Section 11.07. Notices. Any notice to or demand upon the District or the Trustee shall be deemed to have been sufficiently given or served for all purposes by being sent by facsimile or email or by being deposited, first class mail, postage prepaid, in a post office letter box, addressed, as the case may be, to the District at Otay Water District, 2554 Sweetwater Springs Boulevard, Spring Valley, California 91978, Attention: General Manager (or such other address as may have been filed in writing by the District with the Trustee), or to the Trustee at MUFU Union Bank, N.A., 120 South San Pedro Street, Suite 400, Los Angeles, California 90012, Fax: 213-972-5694, Email: AccountAdministration-CorporateTrust@unionbank.com and CashControlGroup-LosAngeles@unionbank.com, Attention: Corporate Trust Department, Reference: Otay Water District, Series 2016. Notwithstanding the foregoing provisions of this Section 11.07, the Trustee shall not be deemed to have received, and shall not be liable for failing to act upon the contents of, any notice unless and until the Trustee actually receives such notice.

Section 11.08. Evidence of Rights of 2016 Bond Owners. Any request, consent or other instrument required or permitted by the Indenture to be signed and executed by 2016 Bond Owners may be in any number of concurrent instruments of substantially similar tenor and shall be signed or executed by such 2016 Bond Owners in person or by an agent or agents duly appointed in writing. Proof of the execution of any such request, consent or other instrument or of a writing appointing any such agent, or of the holding by any person of 2016 Bonds transferable by delivery, shall be sufficient for any purpose of the Indenture and shall be conclusive in favor of the Trustee and the District if made in the manner provided in this Section.

The fact and date of the execution by any person of any such request, consent or other instrument or writing may be proved by the certificate of any notary public or other officer of any jurisdiction, authorized by the laws thereof to take acknowledgments of deeds, certifying that the person signing such request, consent or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer.

The Ownership of 2016 Bonds shall be proved by the Registration Books.

Any request, consent, or other instrument or writing of the Owner of any 2016 Bond shall bind every future Owner of the same 2016 Bond and the Owner of every 2016 Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the District in accordance therewith or reliance thereon.

Section 11.09. Disqualified 2016 Bonds. In determining whether the Owners of the requisite aggregate principal amount of 2016 Bonds have concurred in any demand, request, direction, consent or waiver under the Indenture, 2016 Bonds which are known by the Trustee to be owned or held by or for the account of the District, or by any other obligor on the 2016 Bonds, or by any person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the District or any other obligor on the 2016 Bonds, shall be disregarded and deemed not to be Outstanding for the purpose of any such determination. 2016 Bonds so owned which have been pledged in good faith may be regarded as Outstanding for the purposes of this Section if the pledgee shall establish to the satisfaction of the Trustee the pledgee's right to vote such 2016 Bonds and that the pledgee is not a person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the District or any other obligor on the 2016 Bonds. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel shall be full protection to the Trustee. Upon request, the District shall certify to the Trustee those 2016 Bonds that are disqualified pursuant to this Section 11.09 and the Trustee may conclusively rely on such certificate.

Section 11.10. Money Held for Particular 2016 Bonds. The money held by the Trustee for the payment of the interest or principal due on any date with respect to particular 2016 Bonds shall, on and after such date and pending such payment, be set aside on its books and held in trust by it for the Owners of the 2016 Bonds entitled thereto, subject, however, to the provisions of Section 10.04 hereof but without any liability for interest thereon.

Section 11.11. Funds and Accounts. Any fund or account required by the Indenture to be established and maintained by the Trustee may be established and maintained in the accounting records of the Trustee, either as a fund or an account, and may, for the purposes of such records, any audits thereof and any reports or statements with respect thereto, be treated either as a fund or as an account; but all such records with respect to all such funds and accounts shall at all times be maintained in accordance with corporate trust industry standards to the extent practicable, and with due regard for the requirements of Section 6.05(a) and for the protection of the security of the 2016 Bonds and the rights of every Owner thereof.

Section 11.12. Waiver of Personal Liability. No member, officer, agent, employee, consultant or attorney of the District shall be individually or personally liable for the payment of the principal of or interest on the 2016 Bonds or be subject to any personal liability or accountability by reason of the issuance thereof; but nothing herein contained shall relieve any such member, officer, agent, employee, consultant or attorney from the performance of any official duty provided by law or by the Indenture.

Section 11.13. Execution in Several Counterparts. The Indenture may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original; and all such counterparts, or as many of them as the District and the Trustee shall preserve undestroyed, shall together constitute but one and the same instrument.

Section 11.14. Choice of Law. THE INDENTURE SHALL BE GOVERNED BY THE LAWS OF THE STATE OF CALIFORNIA.

IN WITNESS WHEREOF, the District has caused the Indenture to be signed in its name by its President, and the Trustee, in token of its acceptance of the trusts created hereunder, has caused the Indenture to be signed in its corporate name by its officer thereunto duly authorized, all as of the day and year first above written.

OTAY WATER DISTRICT

By: _____
General Manager

MUFG UNION BANK, N.A., as Trustee

By: _____
Authorized Officer

EXHIBIT A

FORM OF 2016 BOND

UNLESS THIS BOND IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY (AS DEFINED IN THE INDENTURE) TO THE TRUSTEE FOR REGISTRATION OF TRANSFER, EXCHANGE, OR PAYMENT, AND ANY BOND ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

No. _____

\$ _____

UNITED STATES OF AMERICA
STATE OF CALIFORNIA

OTAY WATER DISTRICT
2016 WATER REVENUE REFUNDING BOND

INTEREST RATE	MATURITY DATE	ORIGINAL ISSUE DATE	CUSIP
_____%	September 1, 20__	_____, 2016	_____

REGISTERED OWNER CEDE & CO.

PRINCIPAL AMOUNT: _____ DOLLARS

The OTAY WATER DISTRICT, a municipal water district duly organized and existing under the laws of the State of California (the "District"), for value received, hereby promises to pay to the Registered Owner specified above or registered assigns (the "Registered Owner"), on the Maturity Date specified above, the Principal Amount specified above, in lawful money of the United States of America, and to pay interest thereon in like lawful money from the interest payment date next preceding the date of authentication of this Bond (unless: (i) this Bond is authenticated after the fifteenth day of the calendar month preceding an interest payment date, whether or not such day is a business day, and on or before the following interest payment date, in which event it shall bear interest from such interest payment date; or (ii) this Bond is authenticated on or before August 15, 2016, in which event it shall bear interest from the Original Issue Date identified above; provided, however, that if as of the date of authentication of this Bond, interest is in default on this Bond, this Bond shall bear interest from the interest payment date to which interest has previously been paid or made available for payment on this Bond), at the Interest Rate per annum specified above, payable on September 1, 2016 and each March 1 and September 1 thereafter, calculated on the basis of a 360 day year composed of twelve 30 day months. Principal hereof is payable by check of the Trustee upon presentation and surrender hereof at the Office (as defined in the hereinafter described Indenture) of MUFG Union Bank, N.A., as trustee (the "Trustee"). Interest hereon is payable by check of the Trustee sent by first class mail on the applicable interest payment date to the Registered Owner hereof at the

Registered Owner's address as it appears on the registration books of the Trustee as of the close of business on the fifteenth day of the month preceding each interest payment date (except that in the case of a Registered Owner of one million dollars (\$1,000,000) or more in principal amount, such payment may, at such Registered Owner's option, be made by wire transfer of immediately available funds to an account in the United States in accordance with written instructions provided to the Trustee by such Registered Owner prior to the fifteenth (15th) day of the month preceding such interest payment date).

This Bond is not a debt of the State of California, or any of its political subdivisions (other than the District), and neither the State, nor any of its political subdivisions (other than the District), is liable hereon, nor in any event shall this Bond be payable out of any funds or properties of the District other than the Net Revenues (as such term is defined in the Indenture of Trust, dated as of April 1, 2016 (the "Indenture"), by and between the District and the Trustee) and other moneys pledged therefor under the Indenture. The obligation of the District to make payments in accordance with the Indenture is a limited obligation of the District as set forth in the Indenture and the District shall have no liability or obligation in connection herewith except with respect to such payments to be made pursuant to the Indenture. This Bond does not constitute an indebtedness of the District in contravention of any constitutional or statutory debt limitation or restriction.

This Bond is one of a duly authorized issue of bonds of the District designated as the "Otay Water District 2016 Water Revenue Refunding Bonds" (the "2016 Bonds"), of an aggregate principal amount of Seven Million Seven Hundred Thirty-Five Thousand Dollars (\$_____), all of like tenor and date (except for such variation, if any, as may be required to designate varying series, numbers or interest rates) and all issued pursuant to the provisions of Article 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California, including but not limited to Section 53583, and pursuant to the Indenture and the resolution of the District authorizing the issuance of the 2016 Bonds. Reference is hereby made to the Indenture (copies of which are on file at the office of the District) and all supplements thereto for a description of the terms on which the 2016 Bonds are issued, the provisions with regard to the nature and extent of the Net Revenues, and the rights thereunder of the Owners of the 2016 Bonds and the rights, duties and immunities of the Trustee and the rights and obligations of the District hereunder, to all of the provisions of which the Registered Owner of this Bond, by acceptance hereof, assents and agrees. The 2016 Bonds have been issued in fully registered form without coupons in denominations of \$5,000 or any integral multiple thereof.

The 2016 Bonds have been issued by the District to refund all the outstanding Otay Water District Revenue Certificates of Participation (2007 Water System Project) Series 2007, as more fully described in the Indenture.

This Bond and the interest hereon and all other 2016 Bonds and the interest thereon (to the extent set forth in the Indenture) are special obligations of the District, secured by a pledge and lien on the Revenues and Taxes and any other amounts on deposit in certain funds and accounts created under the Indenture, and payable from the Revenues and Taxes. As and to the extent set forth in the Indenture, all of the Revenues and Taxes are exclusively and irrevocably pledged in accordance with the terms and the provisions of the Indenture, to the payment of the principal of and interest on this Bond.

The Bonds are subject to optional redemption and mandatory sinking fund redemption as set forth in the Indenture.

The Indenture and the rights and obligations of the District and the Owners of the 2016 Bonds and the Trustee may be modified or amended from time to time and at any time with the written consent

of the Owners of a majority in aggregate principal amount of all 2016 Bonds then Outstanding, exclusive of Bonds disqualified as set forth in the Indenture, in the manner, to the extent and upon the terms provided in the Indenture, but no such modification or amendment shall: (i) extend the fixed maturity of any 2016 Bonds, or reduce the amount of principal thereof, or extend the time of payment, or change the method of computing the rate of interest thereon, or extend the time of payment of interest thereon, without the consent of the owner of each 2016 Bond so affected; or (ii) reduce the aforesaid percentage of 2016 Bonds the consent of the Owners of which is required to affect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture except as permitted in the Indenture, or deprive the Owners of the 2016 Bonds of the lien created by the Indenture on such Revenues and other assets, except as expressly provided in the Indenture, without the consent of the Owners of all of the 2016 Bonds then Outstanding.

The Indenture and the rights and obligations of the District, of the Trustee and the Owners of the 2016 Bonds may also be modified or amended for certain purposes described more fully in the Indenture at any time in the manner, to the extent and upon the terms provided in the Indenture by a supplemental indenture, which the District and the Trustee may enter into without the consent of any 2016 Bond Owners, if the Trustee shall receive an opinion of Bond Counsel to the effect that the provisions of such supplemental indenture will not materially adversely affect the interests of the Owners of the Outstanding 2016 Bonds.

If an Event of Default, as defined in the Indenture, shall occur, the principal of all of the 2016 Bonds then Outstanding and the interest accrued thereon may be declared due and payable upon the conditions, in the manner and with the effect provided in the Indenture, but such declaration and its consequences may be rescinded and annulled as further provided in the Indenture.

This Bond is transferable by the Registered Owner hereof, in person or by his or her duly authorized attorney in writing, at the office of the Trustee but only in the manner, subject to the limitations and upon payment of the taxes and charges provided in the Indenture and upon surrender and cancellation of this Bond. Upon registration of such transfer, a new 2016 Bond or 2016 Bonds of the same series, of authorized denomination or denominations, for the same aggregate principal amount of the same maturity will be issued to the transferee in exchange therefor.

This Bond may be exchanged at said office of the Trustee for a like aggregate principal amount of 2016 Bonds of other authorized denominations of the same series and same maturity, but only in the manner, subject to the limitations and upon payment of the taxes and charges provided in the Indenture.

The District and the Trustee may treat the Registered Owner hereof as the absolute owner hereof for all purposes, and the District and the Trustee shall not be affected by any notice to the contrary.

It is hereby certified that all of the things, conditions and acts required to exist, to have happened or to have been performed precedent to and in the issuance of this Bond do exist, have happened or have been performed in due and regular time, form and manner as required by the Indenture and the laws of the State of California and that the amount of this Bond, together with all other indebtedness of the District, does not exceed any limit under any laws of the State of California, and is not in excess of the amount of 2016 Bonds permitted to be issued under the Indenture and the laws of the State of California.

This Bond shall not be entitled to any benefit under the Indenture or become valid or obligatory for any purpose until the certificate of authentication hereon endorsed shall have been manually signed by the Trustee.

IN WITNESS WHEREOF, the District has caused this Bond to be executed in its name and on its behalf with the manual or facsimile signature of its President and attested to by its Secretary as of the Original Issue Date.

OTAY WATER DISTRICT

By: _____
President

ATTEST:

Secretary

[FORM OF TRUSTEE'S CERTIFICATE OF AUTHENTICATION
TO APPEAR ON BONDS]

This is one of the Bonds described in the within-mentioned Indenture.

Dated _____

MUFG UNION BANK, N.A., as Trustee

By: _____
Authorized Signatory

[FORM OF ASSIGNMENT]

For value received the undersigned hereby sells, assigns and transfers unto

(Name, Address and Tax Identification or
Social Security Number of Assignee)

the within registered Bond and hereby irrevocably constitute(s) and appoint(s) _____
_____ attorney, to transfer the same on the registration books of the Trustee
with full power of substitution in the premises.

Dated: _____

Note: The signature(s) on this Assignment must
correspond with the name(s) as written on the
face of the within Bond in every particular
without alteration or enlargement or any
change whatsoever.

Signature Guaranteed:

Note: Signature guarantee shall be made by a
guarantor institution participating in the
Securities Transfer Agents Medallion
Program or in such other guarantee
program acceptable to the Trustee.

ESCROW AGREEMENT

THIS ESCROW AGREEMENT, dated as of April 1, 2016 (the "Agreement"), by and between the Otay Water District (the "District") and MUFG Union Bank, N.A., as escrow agent and as 2007 Trustee (the "Escrow Agent"), is entered into in accordance with Resolution No. ____ of the District adopted on March 23, 2016 and a Trust Agreement, dated as of March 1, 2007 (the "Trust Agreement"), by and among the Otay Service Corporation (the "Corporation"), MUFG Union Bank, N.A., formerly known as Union Bank of California, N.A. (the "2007 Trustee"), and the District (the "2007 Trust Agreement") to refund the outstanding Otay Water District Revenue Certificates of Participation (2007 Water System Project) Series 2007 set forth in Schedule A hereto (the "2007 Certificates").

WITNESSETH:

WHEREAS, the District previously authorized the execution and delivery of the 2007 Certificates pursuant to the Trust Agreement;

WHEREAS, the District has determined that a portion of the proceeds of the \$_____ aggregate principal amount of the Otay Water District 2016 Water Revenue Refunding Bonds (the "Bonds") issued pursuant to an Indenture of Trust, dated as of April 1, 2016, by and between the District and MUFG Union Bank, N.A., as trustee (the "Trustee"), will be used, along with certain other moneys, to provide the Escrow Agent with sufficient funds to pay on and prior to September 1, 2017, all regularly scheduled payments of interest and principal with respect to the 2007 Certificates, and to pay on September 1, 2017 the principal with respect to the 2007 Certificates maturing after September 1, 2017, without premium (the "Prepayment Price"); and

WHEREAS, the Escrow Agent will use the moneys deposited with it to purchase the securities described on Schedule B hereto (the "Federal Securities"), which Federal Securities satisfy the criteria set forth in Section 10.01 of the Trust Agreement;

NOW THEREFORE, in consideration of the mutual covenants and agreements herein contained, the District and the Escrow Agent agree as follows:

SECTION 1. Deposit of Moneys. The District hereby irrevocably deposits with the Escrow Agent \$_____ from the net proceeds of the Bonds and instructs the Escrow Agent to deposit such funds in the Escrow Fund established hereunder. The District further instructs the Escrow Agent to deposit \$____ transferred to it by the 2007 Trustee from the ____ Fund held under the 2007 Trust Agreement and \$_____ from the _____ Fund held under the 2007 Trust Agreement in the Escrow Fund. The District hereby instructs the 2007 Trustee to make the foregoing transfers.

The Escrow Agent shall hold all such amounts in irrevocable escrow separate and apart from other funds of the District and the Escrow Agent in a fund hereby created and established to be known as the "Escrow Fund" and to be applied solely as provided in this Agreement. The moneys set forth above are at least equal to an amount sufficient to purchase the Federal Securities listed in Schedule B hereto, and \$_____ will be held uninvested as cash.

SECTION 2. Investment of Moneys. The Escrow Agent acknowledges receipt of the moneys described in Section 1 and agrees immediately to invest such moneys in the Federal Securities listed on Schedule B hereto, to deposit such Federal Securities in the Escrow Fund and to hold \$_____ uninvested in cash. The Escrow Agent shall be entitled to rely upon the conclusion of Grant Thornton LLP (the "Verification Agent"), that the Federal Securities listed on Schedule B hereto mature and bear interest payable in such amounts and at such times as, together with cash on deposit in the Escrow Fund, will be sufficient to pay when due all regularly scheduled payments of interest and principal with respect to the 2007 Certificates on and prior to September 1, 2017, and to pay on September 1, 2017 the Prepayment Price of the 2007 Certificates maturing after September 1, 2017. The Escrow Agent shall furnish the District periodic cash transaction statements which include detail for all investment transactions effected by the Escrow Agent or brokers selected by the District. Upon the District's election, such statements will be delivered via the Escrow Agent's online service and upon electing such service, paper statements will be provided only upon request. The District waives the right to receive brokerage confirmations of security transactions effected by the Escrow Agent as they occur, to the extent permitted by law. The District further understands that trade confirmations for securities transactions effected by the Escrow Agent will be available upon request and at no additional cost and other trade confirmations may be obtained from the applicable broker.

SECTION 3. Investment of Any Remaining Moneys. At the written direction of the District, the Escrow Agent shall reinvest any other amount of principal and interest, or any portion thereof, received from the Federal Securities prior to the date on which such payment is required for the purposes set forth herein, in noncallable Federal Securities maturing not later than the date on which such payment or portion thereof is required for the purposes set forth in Section 5, at the written direction of the District, as verified in a report prepared by an independent certified public accountant or firm of certified public accountants of favorable national reputation experienced in the refunding of obligations of political subdivisions to the effect that the reinvestment described in said report will not adversely affect the sufficiency of the amounts of securities, investments and money in the Escrow Fund to pay when due all regularly scheduled payments of principal and interest with respect to the 2007 Certificates on and prior to September 1, 2017, and to pay on September 1, 2017 the Prepayment Price of the 2007 Certificates maturing after September 1, 2017, and provided that the District has obtained and delivered to the Escrow Agent an unqualified opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, that such reinvestment will not adversely affect the exclusion from gross income for federal income tax purposes of the interest portion of the Installment Payments (as such term is defined in the Trust Agreement) or interest on the Bonds. Any interest income resulting from investment or reinvestment of moneys pursuant to this Section 3 which are not required for the purposes set forth in Section 5, as verified in the letter of the Verification Agent originally obtained by the District with respect to the refunding of the 2007 Certificates or in any other report prepared by an independent certified public accountant or firm of certified public accountants of favorable national reputation experienced in the refunding of tax-exempt obligations of political subdivisions, shall be paid to the District promptly upon the receipt of such interest income by the Escrow Agent. The determination of the District as to whether an accountant qualifies under this Escrow Agreement shall be conclusive.

SECTION 4. Substitution of Securities. Upon the written request of the District, and subject to the conditions and limitations herein set forth and applicable governmental rules and regulations, the Escrow Agent shall sell, redeem or otherwise dispose of the Federal Securities, provided that there are substituted therefor from the proceeds of the Federal Securities other Federal Securities, but only after the District has obtained and delivered to the Escrow Agent: (i) an

unqualified opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, to the effect that the substitution of securities is permitted under the Trust Agreement and that such reinvestment will not adversely affect the exclusion from gross income for federal income tax purposes of the interest portion of the Installment Payments (as such term is defined in the Trust Agreement) or interest on the Bonds; and (ii) a report by a firm of independent certified public accountants to the effect that the reinvestment described in said report will not adversely affect the sufficiency of the amounts of securities, investments and money in the Escrow Fund to pay when due all regularly scheduled payments of interest and principal with respect to the 2007 Certificates on and prior to September 1, 2017, and to pay on September 1, 2017 the Prepayment Price of the 2007 Certificates maturing after September 1, 2017. The Escrow Agent shall not be liable or responsible for any loss resulting from any reinvestment made pursuant to this Agreement and in full compliance with the provisions hereof.

SECTION 5. Payment of 2007 Certificates.

(a) Payment. From the maturing principal of the Federal Securities and the investment income and other earnings thereon and other moneys on deposit in the Escrow Fund, the Escrow Agent shall on each March 1 and September 1, commencing September 1, 2016, through and including September 1, 2017, apply the amounts on deposit in the Escrow Fund to the 2007 Trustee to pay when due all regularly scheduled payments of principal and interest with respect to the 2007 Certificates on and prior to September 1, 2017, and to pay on September 1, 2017 the Prepayment Price of the 2007 Certificates maturing after September 1, 2017, all as shown on Exhibit A hereto.

(b) Irrevocable Instructions to Provide Notice. The forms of the notice of prepayment and notice of defeasance required to be mailed pursuant to Sections 4.03 and 10.01 of the Trust Agreement are substantially in the forms attached hereto as Exhibits A and B. The District hereby irrevocably instructs the Escrow Agent to mail a notice of prepayment and a notice of defeasance of the 2007 Certificates in accordance with Sections 4.03 and 10.01, respectively, of the Trust Agreement, as required to provide for the prepayment of the 2007 Certificates in accordance with this Section 5 on or before August 1, 2017.

(c) Unclaimed Moneys. Any moneys which remain unclaimed for one year after September 1, 2017 shall be repaid by the Escrow Agent to the District.

(d) Priority of Payments. The owners of the 2007 Certificates shall have a first and exclusive lien on all moneys and securities in the Escrow Fund until such moneys and such securities are used and applied as provided in this Agreement.

(e) Termination of Obligation. As provided in the Trust Agreement, upon deposit of moneys with the Escrow Agent in the Escrow Fund as set forth in Section 1 hereof and the purchase of the various Federal Securities as provided in Section 2 hereof, all obligations of the District under the Trust Agreement with respect to the 2007 Certificates shall cease, terminate and become void except as set forth in the Trust Agreement. As provided in Section 9.01 of the Installment Purchase Agreement, dated as of July 1, 2007 (the "Installment Purchase Agreement"), the obligations of the District under the Installment Purchase Agreement shall cease, terminate, become void and be completely discharged and satisfied (except for the rights of the 2007 Trustee and the obligation of the District to have the Federal Securities and moneys on deposit in the Escrow Fund applied to Installment Payments).

SECTION 6. Application of Certain Terms of the Trust Agreement. All of the terms of the Trust Agreement relating to the making of payments of principal and interest with respect to the 2007 Certificates and relating to the exchange or transfer of the 2007 Certificates are incorporated in this Agreement as if set forth in full herein. The procedures set forth in Section 8.03 of the Trust Agreement relating to the resignation and removal and merger of the 2007 Trustee under the Trust Agreement are also incorporated in this Agreement as if set forth in full herein and shall be the procedures to be followed with respect to any resignation or removal of the Escrow Agent hereunder.

SECTION 7. Performance of Duties. The Escrow Agent agrees to perform only the duties set forth herein and shall have no responsibility to take any action or omit to take any action not set forth herein.

SECTION 8. Escrow Agent's Authority to Make Investments. Except as provided in Section 2 hereof, the Escrow Agent shall have no power or duty to invest any funds held under this Agreement or to sell, transfer or otherwise dispose of the moneys or Federal Securities held hereunder.

SECTION 9. Indemnity. The District hereby assumes liability for, and hereby agrees (whether or not any of the transactions contemplated hereby are consummated) to indemnify, protect, save and keep harmless the Escrow Agent and its respective successors, assigns, agents, employees and servants, from and against any and all liabilities, obligations, losses, damages, penalties, claims, actions, suits, costs, expenses and disbursements (including reasonable legal fees and disbursements) of whatsoever kind and nature which may be imposed on, incurred by, or asserted against, the Escrow Agent at any time (whether or not also indemnified against the same by the District or any other person under any other agreement or instrument, but without double indemnity) in any way relating to or arising out of the execution, delivery and performance of this Agreement, the establishment hereunder of the Escrow Fund, the acceptance of the funds and securities deposited therein, the retention of the proceeds thereof and any payment, transfer or other application of moneys or securities by the Escrow Agent in accordance with the provisions of this Agreement; provided, however, that the District shall not be required to indemnify the Escrow Agent against the Escrow Agent's own negligence or willful misconduct or the negligence or willful misconduct of the Escrow Agent's respective employees or the willful breach by the Escrow Agent of the terms of this Agreement. In no event shall the District or the Escrow Agent be liable to any person by reason of the transactions contemplated hereby other than to each other as set forth in this Section. The indemnities contained in this Section shall survive the termination of this Agreement.

SECTION 10. Responsibilities of Escrow Agent. The Escrow Agent and its agents and servants shall not be held to any personal liability whatsoever, in tort, contract, or otherwise, in connection with the execution and delivery of this Agreement, the establishment of the Escrow Fund, the acceptance of the moneys or securities deposited therein, the retention of the Federal Securities or the proceeds thereof, the sufficiency of the Federal Securities to pay the 2007 Certificates or any payment, transfer or other application of moneys or obligations by the Escrow Agent in accordance with the provisions of this Agreement or by reason of any non-negligent act, non-negligent omission or non-negligent error of the Escrow Agent made in good faith in the conduct of its duties. The recitals of fact contained in the "Whereas" clauses herein shall be taken as the statements of the District, and the Escrow Agent assumes no responsibility for the correctness thereof. The Escrow Agent makes no representation as to the sufficiency of the proceeds to accomplish the refunding of the 2007 Certificates or to the validity of this Agreement as to the District and, except as otherwise provided herein, the Escrow Agent shall incur no liability in respect thereof. The Escrow Agent shall

not be liable in connection with the performance of its duties under this Agreement except for its own negligence, willful misconduct or default, and the duties and obligations of the Escrow Agent shall be determined by the express provisions of this Agreement. The Escrow Agent may consult with counsel, who may or may not be counsel to the District, and in reliance upon the written opinion of such counsel shall have full and complete authorization and protection in respect of any action taken, suffered or omitted by it in good faith in accordance therewith. Whenever the Escrow Agent shall deem it necessary or desirable that a matter be proved or established prior to taking, suffering, or omitting any action under this Agreement, such matter may be deemed to be conclusively established by a certificate signed by an officer of the District.

SECTION 11. Amendments. This Agreement is made for the benefit of the District and the owners from time to time of the 2007 Certificates and it shall not be repealed, revoked, altered or amended without the written consent of all such owners, the Escrow Agent and the District; provided, however, that the District and the Escrow Agent may, without the consent of, or notice to, such owners, amend this Agreement or enter into such agreements supplemental to this Agreement as shall not adversely affect the rights of such owners and as shall not be inconsistent with the terms and provisions of this Agreement, Division 11 of the Water Code of the State of California, or the Trust Agreement, for any one or more of the following purposes: (i) to cure any ambiguity or formal defect or omission in this Agreement; (ii) to grant to, or confer upon, the Escrow Agent for the benefit of the owners of the 2007 Certificates, any additional rights, remedies, powers or authority that may lawfully be granted to, or conferred upon, such owners or the Escrow Agent; and (iii) to include under this Agreement additional funds. The Escrow Agent shall be entitled to rely conclusively upon an unqualified opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, with respect to compliance with this Section, including the extent, if any, to which any change, modification, addition or elimination affects the rights of the owners of the various 2007 Certificates or that any instrument executed hereunder complies with the conditions and provisions of this Section.

SECTION 12. Notice to Rating Agencies. In the event that this agreement or any provision thereof is severed, amended or revoked the Escrow Agent shall provide written notice of such severance, amendment or revocation to the rating agencies then rating the 2007 Certificates.

SECTION 13. Term. This Agreement shall commence upon its execution and delivery and shall terminate on the later to occur of either: (i) the date upon which the 2007 Certificates have been paid in accordance with this Agreement; or (ii) the date upon which no unclaimed moneys remain on deposit with the Escrow Agent pursuant to Section 5(c) of this Agreement.

SECTION 14. Compensation. The Escrow Agent shall receive its reasonable fees and expenses as previously agreed to by the Escrow Agent and the District and any other reasonable fees and expenses of the Escrow Agent approved by the District; provided, however, that under no circumstances shall the Escrow Agent be entitled to any lien or assert any lien whatsoever on any moneys or obligations in the Escrow Fund for the payment of fees and expenses for services rendered or expenses incurred by the Escrow Agent under this Agreement.

SECTION 15. Severability. If any one or more of the covenants or agreements provided in this Agreement on the part of the District or the Escrow Agent to be performed should be determined by a court of competent jurisdiction to be contrary to law, such covenants or agreements shall be null and void and shall be deemed separate from the remaining covenants and agreements herein contained and shall in no way affect the validity of the remaining provisions of this Agreement.

SECTION 16. Counterparts. This Agreement may be executed in several counterparts, all or any of which shall be regarded for all purposes as an original but all of which shall constitute and be but one and the same instrument.

SECTION 17. Governing Law. THIS AGREEMENT SHALL BE CONSTRUED UNDER THE LAWS OF THE STATE OF CALIFORNIA.

SECTION 18. Insufficient Funds. If at any time the Escrow Agent has actual knowledge that the moneys and investments in the Escrow Fund, including the anticipated proceeds of and earnings thereon, will not be sufficient to make all payments required by this Agreement, the Escrow Agent shall notify the District in writing, of the amount thereof and the reason therefor to the extent known to it. The Escrow Agent shall have no responsibility regarding any such deficiency.

SECTION 19. Notice to District and Escrow Agent. Any notice to or demand upon the Escrow Agent may be served or presented, and such demand may be made, at the principal corporate trust office of the Escrow Agent at MUFJ Union Bank, N.A., 120 South San Pedro Street, Suite 400, Los Angeles, California 90012, Attention: Corporate Trust Department, Fax: 213-972-5694; Email: AccountAdministration-CorporateTrust@unionbank.com and CashControlGroup-LosAngeles@unionbank.com. Any notice to or demand upon the District shall be deemed to have been sufficiently given or served for all purposes by being mailed by registered or certified mail, and deposited, postage prepaid, in a post office letter box, addressed to the District at 2554 Sweetwater Springs Boulevard, Spring Valley, California 91978, Attention: General Manager (or such other address as may have been filed in writing by the District with the Escrow Agent).

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their duly authorized officers and attested as of the date first above written.

OTAY WATER DISTRICT

By: _____
General Manager

MUFG UNION BANK, N.A., as Escrow Agent
and 2007 Trustee

By: _____
Authorized Officer

SCHEDULE A

2007 Certificates

Payment Date	Rate	Principal
9/1/2016*	3.800	\$ 1,075,000
9/1/2017*	3.800	1,115,000
9/1/2018	3.875	1,155,000
9/1/2019	3.900	1,200,000
9/1/2020	4.000	1,250,000
9/1/2021	4.000	1,300,000
9/1/2022	4.100	1,355,000
9/1/2023	4.100	1,410,000
9/1/2024	4.125	1,470,000
9/1/2025	4.200	1,530,000
9/1/2026	4.250	1,595,000
9/1/2027	4.250	1,665,000
9/1/2028	4.250	1,735,000
9/1/2029	4.250	1,810,000
9/1/2031	4.250	3,860,000
9/1/2036	4.375	11,235,000

SCHEDULE B

Federal Securities

<i>Security</i>	<i>Maturity</i>	<i>Principal Amount</i>	<i>Interest Rate</i>
-----------------	-----------------	-----------------------------	--------------------------

EXHIBIT A

NOTICE OF FULL OPTIONAL PREPAYMENT

OTAY WATER DISTRICT
REVENUE CERTIFICATES OF PARTICIPATION
(2007 WATER SYSTEM PROJECT), SERIES 2007

BASE CUSIP NO. _____

NOTICE IS HEREBY GIVEN to the owners of the above-captioned Certificates of Participation maturing on and after September 1, 2018 (the "Certificates") of the Otay Water District (the "District") pursuant to the Trust Agreement, dated as of March 1, 2007 (the "Trust Agreement"), by and among the District, the Otay Service Corporation and MUFG Union Bank, N.A. (formerly known as Union Bank of California, N.A.), as trustee (the "Trustee"), that the Certificates in the amount of \$_____ have been called for prepayment on September 1, 2017 (the "Prepayment Date").

<u>CUSIP</u>	<u>Maturity</u> <u>(September 1)</u>	<u>Rate</u>	<u>Amount</u>	<u>Price</u>
688818 CB7	2018	3.875	\$ 1,155,000	100%
688818 CC5	2019	3.900	1,200,000	100
688818 CD3	2020	4.000	1,250,000	100
688818 CE1	2021	4.000	1,300,000	100
688818 CF8	2022	4.100	1,355,000	100
688818 CG6	2023	4.100	1,410,000	100
688818 CH4	2024	4.125	1,470,000	100
688818 CJ0	2025	4.200	1,530,000	100
688818 CK7	2026	4.250	1,595,000	100
688818 CL5	2027	4.250	1,665,000	100
688818 CM3	2028	4.250	1,735,000	100
688818 CN1	2029	4.250	1,810,000	100
688818 CP6	2031	4.250	3,860,000	100
688818 CQ4	2036	4.375	11,235,000	100

The District and the Trustee shall not be responsible for the selection or use of the CUSIP numbers selected, nor is any representation made as to their correctness in the notice or as printed on any Certificate. They are included solely for the convenience of the holders.

The Certificates will be payable on the Prepayment Date at a prepayment price of 100% of the principal amount plus accrued interest to such date (the "Prepayment Price"). The Prepayment Price of the Certificates will become due and payable on the Prepayment Date. Interest with respect to the Certificates to be prepaid will cease to accrue on and after the Prepayment Date, and such Certificates will be surrendered to the Trustee.

All Certificates are required to be surrendered to the principal corporate office of the Trustee, on the Prepayment Date at the following location. If the Certificates are mailed, the use of registered, insured mail is recommended:

BY HAND OR MAIL

MUFG Union Bank, N.A.
Corporate Trust Department
Attention: Bond Redemption
120 South San Pedro Street, Suite 410
Los Angeles, CA 90012

If the Owner of any Certificate subject to optional prepayment fails to deliver such Certificate to the Trustee on the Prepayment Date, such Certificate shall nevertheless be deemed prepaid on the Prepayment Date and the Owner of such Certificate shall have no rights in respect thereof except to receive payment of the Prepayment Price from funds held by the Trustee for such payment.

A form W-9 must be submitted with the Certificates. Failure to provide a completed form W-9 will result in 31% backup withholding pursuant to the Interest and Dividend Tax Compliance Act of 1983. Under the Jobs and Growth Tax Relief Reconciliation Act of 2003, 28% will be withheld if the tax identification number is not properly certified.

DATED this ____ day of _____, 2016.

MUFG UNION BANK, N.A., as Trustee

EXHIBIT B

NOTICE OF DEFEASANCE

**OTAY WATER DISTRICT
REVENUE CERTIFICATES OF PARTICIPATION
(2007 WATER SYSTEM PROJECT), SERIES 2007**

BASE CUSIP NO. _____

NOTICE IS HEREBY GIVEN to the owners of the above-captioned certificates of participation (the "2007 Certificates") of the Otay Water District (the "District"), that the District has deposited with MUFG Union Bank, N.A. (formerly known as Union Bank of California, N.A.), as trustee (the "Trustee") under the Trust Agreement, dated as of March 1, 2007 (the "Trust Agreement"), by and among the District, the Otay Service Corporation (the "Corporation") and the Trustee, cash and federal securities, the principal of and interest on which when paid will provide moneys sufficient to pay on and prior to September 1, 2017 the regularly scheduled payments of principal and interest with respect to the 2007 Certificates, and to prepay on September 1, 2017 the principal with respect to the 2007 Certificates maturing after September 1, 2017.

<u>CUSIP</u>	<u>Maturity (September 1)</u>	<u>Amount</u>
688818 BZ5	2016	\$ 1,075,000
688818 CA9	2017	1,115,000
688818 CB7	2018	1,155,000
688818 CC5	2019	1,200,000
688818 CD3	2020	1,250,000
688818 CE1	2021	1,300,000
688818 CF8	2022	1,355,000
688818 CG6	2023	1,410,000
688818 CH4	2024	1,470,000
688818 CJ0	2025	1,530,000
688818 CK7	2026	1,595,000
688818 CL5	2027	1,665,000
688818 CM3	2028	1,735,000
688818 CN1	2029	1,810,000
688818 CP6	2031	3,860,000
688818 CQ4	2036	11,235,000

The District and the Trustee shall not be responsible for the selection or use of the CUSIP numbers selected, nor is any representation made as to their correctness in the notice or as printed on any Certificate. They are included solely for the convenience of the holders.

In accordance with the Trust Agreement, the 2007 Certificates are deemed to have been paid in accordance with Section 10.01 thereof and the obligations of the District and the Corporation under the Trust Agreement and the Installment Purchase Agreement, dated as of March 1, 2007, by and between the District and the Corporation, with respect to the 2007 Certificates have been released and shall thereupon cease, terminate and become void and be discharged and satisfied.

DATED this ____ day of _____, 2016.

MUFG UNION BANK, N.A., as Trustee

OFFICIAL NOTICE OF SALE**\$35,000,000*****OTAY WATER DISTRICT
2016 WATER REVENUE REFUNDING BONDS**

NOTICE IS HEREBY GIVEN that electronic bids only will be received by representatives of the Otay Water District (the "District") for the purchase of \$35,000,000* approximate aggregate principal amount of 2016 Water Revenue Refunding Bonds (the "Bonds"), more particularly described below.

DATE AND TIME: WEDNESDAY, APRIL 13, 2016, at 9:30 A.M. (Pacific Daylight Saving Time).

SUBMISSION OF BIDS: Bids may be submitted (for receipt not later than the time set forth above) electronically only through the I-Deal LLC BidCOMP/PARITY[®] system. See "FORM OF BID; MAXIMUM DISCOUNT" herein. **Bidders should be aware that the par amount of the Bonds may be increased or reduced, and in any event, adjusted to fit the District's refunding requirements for the District's outstanding Revenue Certificates of Participation (2007 Water System Project) (the "2007 Certificates").** See "ADJUSTMENT OF PRINCIPAL AMOUNTS AND OF MATURITIES" below.

TERMS OF BONDS; PRELIMINARY OFFICIAL STATEMENT: The terms of issuance, payment of the principal and the interest on the Bonds, redemption, security, tax exemption and all other information regarding the Bonds and the Otay Water District are given in the Preliminary Official Statement for the Bonds, dated _____, 2016 (the "Preliminary Official Statement"), which each bidder must have obtained and reviewed prior to bidding for the Bonds. This Official Notice of Sale contains certain information for quick reference only, is not a summary of the issue and governs only the terms of the sale of, bidding for and closing procedures with respect to the Bonds. Bidders must read the entire Preliminary Official Statement to obtain information essential to the making of an informed investment decision. Capitalized terms used herein and not defined herein shall have the meanings set forth in the Preliminary Official Statement.

ISSUE; BOOK-ENTRY: The Bonds will be dated as of their date of delivery and will be issued in fully registered form, without coupons, in the denomination of \$5,000 each or any integral multiple thereof, pursuant to the Indenture of Trust, dated as of May 1, 2016 (the "Indenture"), by and between the District and MUFG Union Bank, N.A., as trustee (the "Trustee), as approved by a resolution of the Board of Directors of the District, adopted on _____, 2016. The Bonds will be issued in a book-entry-only system with no physical distribution of the Bonds made to the public. The Depository Trust Company, New York, New York ("DTC"), will act as depository for the Bonds which will be immobilized in its custody. The Bonds will be registered in the name of Cede & Co., as nominee for DTC, on behalf of the participants in the DTC system and the subsequent beneficial owners of the Bonds. Reference is made to the Indenture for further details regarding the terms and provisions of the Bonds. Copies of the Indenture will be furnished to any interested bidder upon request.

* Preliminary, subject to change.

MATURITIES: The Bonds will mature, or be subject to mandatory sinking fund redemption, on September 1, in the years and in the amounts, as set forth in the following table. Each bidder is required to specify in its bid whether, for any particular year, the Bonds will mature or, alternately, be subject to mandatory sinking fund redemption in such year:

<u>Maturity Date</u> <u>(September 1)</u>	<u>Principal</u> <u>Amount*</u>	<u>Maturity Date</u> <u>(June 1)</u>	<u>Principal</u> <u>Amount*</u>
2016		2026	
2017		2027	
2018		2028	
2019		2029	
2020		2030	
2021		2031	
2022		2032	
2023		2033	
2024		2034	
2025		2035	
		2036	

* Preliminary, subject to change.

ADJUSTMENT OF PRINCIPAL AMOUNTS AND OF MATURITIES: The maturity amounts set forth in this Official Notice of Sale reflect certain estimates of the District and its Municipal Advisor with respect to the likely interest rates of a winning bid and the premium/discount likely to be specified in such a winning bid. The maturity amounts set forth above for the Bonds may be adjusted either upward or downward in order to provide sufficient funds and achieve approximately level debt service with respect to the refunding of the 2007 Certificates after award of the Bonds has been made to the successful bidder. The successful bidder will be notified of the actual principal amounts and maturity schedule relating to the Bonds within 24 hours after the expiration of the time prescribed for the receipt of proposals. Any increase or decrease will be in \$5,000 increments of principal amounts. In the event of any such adjustment, no re-bidding or recalculation of the bids submitted will be required or permitted and no successful bid may be withdrawn. The successful bidder will not be permitted to change the interest rates in its bid.

INTEREST: Interest on the Bonds, calculated on a 30/360 day basis, at a rate for each maturity to be fixed upon the sale thereof will be payable semiannually on each September 1 and March 1, commencing September 1, 2016.

PAYMENT: Principal of the Bonds upon maturity or earlier redemption and interest on the Bonds will be payable by wire of the Trustee to DTC which will in turn remit such interest and principal to DTC Participants (as defined in the Preliminary Official Statement), which will in turn remit such interest and principal to Beneficial Owners (as defined in the Preliminary Official Statement) of the Bonds.

OPTIONAL REDEMPTION: The Bonds maturing on or after September 1, 2027 shall be subject to optional redemption, in whole or in part, on any date on or after September 1, 2026, upon the exercise by the District of its right to cause the redemption of Bonds in accordance with the Indenture, from any source of available funds, at a redemption price equal to the principal amount of the Bonds to be redeemed, plus accrued interest thereon to the date of redemption..

SINKING FUND REDEMPTION: Any bidder may, at its option, specify that one or more maturities of the Bonds will consist of term Bonds which are subject to mandatory sinking fund redemption in consecutive years immediately preceding the maturity thereof, as designated in the bid of such bidder.

In the event that the bid of the successful bidder specifies that any maturity of Bonds will be term Bonds, such term Bonds will be subject to mandatory sinking fund redemption on September 1 in each year so designated in the bid, in the respective amounts for such years as set forth above under the heading "MATURITIES," at a redemption price equal to the principal amount thereof to be redeemed together with accrued interest thereon to the redemption date, without premium.

PURPOSE: The proceeds of the Bonds, together with other available moneys, will be applied by the District to provide funds to refinance the District's outstanding 2007 Certificates, and pay costs incurred in connection with issuance of the Bonds.

SECURITY: The Bonds are secured by Taxes and Net Revenues of the District's Water System, as described in the Preliminary Official Statement and any other amounts held in certain funds under the Indenture. The Bonds are payable on a parity with other obligations of the District as described in the Preliminary Official Statement.

The Bonds are a special obligation of the District payable solely from Taxes and Net Revenues, as described in the Preliminary Official Statement, and other funds provided for in the Indenture, and do not constitute a debt of the District or of the State, or of any political subdivision thereof, in contravention of any constitutional or statutory debt limitation or restriction. Neither the faith and credit nor the taxing power of the District or the State, or any political subdivision thereof, is pledged to the payment of the Bonds or other payments required to be made under the Indenture.

RATING: Standard & Poor's Ratings Services has assigned a rating of "___" to the Bonds. **The cost of obtaining such rating will be borne entirely by the District and not by the successful bidder.** Any additional ratings desired by the purchaser of the Bonds, as well as the fees associated with such ratings, will be the sole responsibility of the purchaser.

TERMS OF SALE

BID SPECIFICATIONS & INTEREST RATES. All bids must be unconditional. Bidders must specify interest rates with respect to the Bonds in accordance with the following conditions:

- (i) each interest rate specified must be in a multiple of 1/20 or 1/8 of 1%;
- (ii) the maximum interest rate specified for any maturity may not exceed 6%;
- (iii) a zero rate of interest cannot be specified;
- (iv) all Bonds of the same maturity date shall bear interest to the stated maturity date at the interest rate specified in the bid; and
- (v) no bid will be accepted which provides for the cancellation and surrender of any interest payment or for the waiver of interest or other concession by the bidder as a substitute for payment in full of the purchase price of the Bonds.

Bids that do not conform to these terms will be rejected.

FORM OF BID; MAXIMUM DISCOUNT: All bids must be for not less than all of the Bonds hereby offered for sale and must provide for a purchase price of not less than 99% of the aggregate par amount thereof.

ELECTRONIC BIDS: To the extent any instructions or directions set forth in BiDCOMP/PARITY[®] conflict with this Official Notice of Sale, the terms of this Official Notice of Sale shall control. For further information about BiDCOMP/PARITY[®], bidders may contact Harrell & Company Advisors, LLC (the "Municipal Advisor") at (714) 939-1464 or BiDCOMP/PARITY[®] at (212) 849-5021.

THE DISTRICT RETAINS ABSOLUTE DISCRETION TO DETERMINE WHETHER ANY BID IS TIMELY, LEGIBLE AND COMPLETE. NONE OF THE DISTRICT, THE MUNICIPAL ADVISOR, OR BOND COUNSEL TAKES ANY RESPONSIBILITY FOR INFORMING ANY BIDDER PRIOR TO THE TIME FOR RECEIVING BIDS THAT ITS BID IS INCOMPLETE, ILLEGIBLE OR NOT RECEIVED.

EACH BIDDER SUBMITTING AN ELECTRONIC BID UNDERSTANDS AND AGREES BY DOING SO THAT IT IS SOLELY RESPONSIBLE FOR ALL ARRANGEMENTS WITH BiDCOMP/PARITY[®] AND THAT BiDCOMP/PARITY[®] IS NOT ACTING AS AN AGENT OF THE DISTRICT. INSTRUCTIONS AND FORMS FOR SUBMITTING ELECTRONIC BIDS MUST BE OBTAINED FROM BiDCOMP/PARITY[®] AND THE DISTRICT ASSUMES NO RESPONSIBILITY FOR ENSURING OR VERIFYING BIDDER COMPLIANCE WITH THE PROCEDURES OF BiDCOMP/PARITY[®]. THE DISTRICT SHALL ASSUME THAT ANY BID RECEIVED THROUGH BiDCOMP/PARITY[®] HAS BEEN MADE BY A DULY AUTHORIZED AGENT OF THE BIDDER.

THE DISTRICT WILL MAKE ITS BEST EFFORTS TO ACCOMMODATE ELECTRONIC BIDS; HOWEVER THE DISTRICT, THE MUNICIPAL ADVISOR AND BOND COUNSEL ASSUME NO RESPONSIBILITY FOR ANY ERROR CONTAINED IN ANY BID SUBMITTED ELECTRONICALLY, OR FOR FAILURE OF ANY BID TO BE TRANSMITTED, RECEIVED OR ACCEPTED AT THE OFFICIAL TIME FOR RECEIPT OF BIDS. THE OFFICIAL TIME FOR RECEIPT OF BIDS WILL BE DETERMINED BY THE DISTRICT, AND THE DISTRICT SHALL NOT BE REQUIRED TO ACCEPT THE TIME KEPT BY BiDCOMP/PARITY[®] AS THE OFFICIAL TIME.

BEST BID: The Bonds will be awarded to the responsible bidder or bidders offering to purchase the Bonds at the lowest true interest cost to the District. The true interest cost of each bid will be determined on the basis of the present value of the aggregate future semiannual payments resulting from the interest rates specified by the bidder. The present value will be calculated to the dated date of the Bonds (assumed to be May 4, 2016) and will be based on the proposed bid amount (par value less any discount or plus any premium). For the purpose of making such determination, it shall be assumed that any Bond designated as term Bonds by the bidder shall be deemed to be payable on the dates and in the amounts as shown under the section entitled "MATURITIES" herein. Each bidder is requested, but not required, to state in such bidder's bid the percentage true interest cost to the District, which shall be considered as informative only and shall not be binding on either the bidder or the District. The determination by the Municipal Advisor of the bid with the lowest true interest cost to the District shall be binding and conclusive on all bidders.

RIGHT OF CANCELLATION OF SALE BY DISTRICT: The District reserves the right, in its sole discretion, at any time to cancel the public sale of the Bonds. In such event, the District shall cause notice of cancellation of this invitation for bids and the public sale of the Bonds to be communicated through the Bond Buyer Wire or TM3 as promptly as practicable. However, no failure to publish such notice or any defect or omission therein shall affect the cancellation of the public sale of the Bonds.

RIGHT TO MODIFY OR AMEND: The District reserves the right, in its sole discretion, to modify or amend this Official Notice of Sale including, but not limited to, the right to adjust and change the principal amount and principal amortization schedule of the Bonds being offered, however, such modifications or amendments shall be made not later than 10:00 A.M., Pacific Daylight Saving Time, on the business day prior to the bid opening and communicated through the Bond Buyer Wire or TM3.

RIGHT OF POSTPONEMENT BY DISTRICT: The District reserves the right, in its sole discretion, to postpone, from time to time, the date established for the receipt of bids. Any such postponement will be communicated through the Bond Buyer Wire or TM3 not later than 9:00 A.M., Pacific Daylight Saving Time on the date for receipt of bids. If any date is postponed, any alternative sale date will be announced through the Bond Buyer Wire or TM3 at least 24 hours prior to such alternative sale date. On any such alternative sale date, any bidder may submit a bid for the purchase of the Bonds in conformity in all respects with the provisions of this Official Notice of Sale, except for the date of sale and except for

the changes announced by through the Bond Buyer Wire or TM3 at the time the sale date and time are announced.

RIGHT OF REJECTION: The District reserves the right, in its sole discretion, to reject any and all bids and to waive any irregularity or informality in any bid except that no bids will be accepted later than 9:30 A.M. on the date set for receipt of bids.

PROMPT AWARD: Pursuant to authority granted by the Board of Directors, the District will take action awarding the Bonds or rejecting all bids not later than 24 hours after the expiration of the time herein prescribed for the receipt of proposals; provided, that the award may be made after the expiration of the specified time if the bidder shall not have given to said Board notice in writing of the withdrawal of such proposal.

PLACE OF DELIVERY; CANCELLATION FOR LATE DELIVERY: It is expected that said Bonds will be delivered through the facilities of DTC for the account of the successful bidder within 30 days from the date of sale thereof. The successful bidder shall have the right, at his option, to cancel its obligation to purchase the Bonds if the Bonds are not tendered for delivery within 60 days from the date of the sale thereof.

NO GOOD FAITH DEPOSIT: No good faith deposit is required.

CHANGE IN TAX EXEMPT STATUS: At any time before the Bonds are tendered for delivery, the successful bidder may disaffirm and withdraw such bidder's proposal if the interest received by private holders from bonds of the same type and character as the Bonds shall be declared to be taxable income under present federal income tax laws, either by a ruling of the Internal Revenue Service or by a decision of any federal court, or shall be declared taxable, or be required to be taken into account in computing federal income taxes (except alternative minimum taxes payable by corporations) by any federal income tax law enacted subsequent to the date of this Official Notice of Sale.

CLOSING PAPERS: Each proposal will be understood to be conditioned upon the District furnishing to the purchaser, without charge, concurrently with payment for and delivery of the Bonds, the following closing papers, each dated the date of delivery:

- (a) The opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel to the District, substantially to the effect, subject to the matters expressed therein, that the Bonds constitute the valid and binding special obligations of the District and that based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, but that such interest on the Bonds is included in adjusted current earnings when calculating corporate alternative minimum taxable income.
- (b) A certificate of the District certifying that on the basis of the facts, estimates and circumstances in existence on the date of issue, it is not expected that the proceeds of the Bonds will be used in a manner that would cause the Bonds to be arbitrage bonds;
- (c) A certificate of the Trustee certifying that the officers and representatives have authenticated the Bonds, and that they were respectively duly authorized to authenticate the same;
- (d) The receipt of the District evidencing the receipt of the purchase price of the Bonds;
- (e) A certificate of the District certifying that there is no known litigation threatened or pending

affecting the validity of the Bonds; and

- (f) A certificate of the District, to the effect that at the time of the sale of the Bonds, and at all times subsequent thereto up to and including the time of the delivery of the Bonds, the Official Statement relating to the Bonds did not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

DISCLOSURE COUNSEL OPINION: Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California will also act as Disclosure Counsel in connection with the issuance of the Bonds. Such firm will render a legal opinion to the District and the original purchaser of the Bonds to the effect that based on their participation in the preparation of the Official Statement, nothing has come to their attention to lead them to believe that the Official Statement (except for certain financial statements, statistical data and other information) contains any untrue statement of a material fact or omits to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

CUSIP NUMBERS: It is anticipated that CUSIP numbers will be printed on the Bonds, but neither the failure to print such numbers on any Bond nor error with respect thereto shall constitute cause for a failure or refusal by the purchaser thereof to accept delivery of and pay for the Bonds in accordance with the terms of the purchase contract. All expenses of printing CUSIP numbers on the Bonds and the CUSIP Service Bureau charge for the assignment of said numbers shall be paid by the successful bidder.

QUALIFICATION FOR SALE; BLUE SKY: Compliance with blue sky laws shall be the sole responsibility of the purchaser. The District will furnish such information and take such action not inconsistent with law as the purchaser may request and the District shall deem necessary or appropriate to qualify the Bonds for offer and sale under the blue sky or other securities laws and regulations of such states and other jurisdictions of the United States of America as may be designated by the purchaser; provided, however, that the District shall not execute a general or special consent to service of process or qualify to do business in connection with such qualification or determination in any jurisdiction. The purchaser will not offer to sell or solicit any offer to buy the Bonds in any jurisdiction where it is unlawful for such purchaser to make such offer, solicitation or sale, and the purchaser shall comply with the blue sky and other securities laws and regulations of the states and jurisdictions in which the purchaser sells the Bonds.

CERTIFICATION OF REOFFERING PRICE: The successful bidder shall be required, as a condition to the delivery of the Bonds, to provide to the District initial offering price information in form and substance as Bond Counsel may require, including certification that, as of the date of sale, (i) all of the Bonds were expected to be reoffered in a bona fide public offering at the stated initial offering price, which was the price at which all the Bonds were expected to be sold to the public, (ii) the Bonds were offered to the general public in a bona fide offering at the stated initial offering price, and (iii) the initial offering prices at which the Bonds were sold to the public, including the first price at which at least 10% of each maturity of the Bonds actually has been sold to the general public.

CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION: The successful bidder will be required, pursuant to State law, to pay any fees to the California Debt and Investment Advisory Commission when due.

DTC FEES: All fees due DTC with respect to the Bonds shall be paid by the successful bidder or bidders.

OFFICIAL STATEMENT: The District has caused to be prepared the Preliminary Official Statement in a form deemed final, as of its date, by the District within the meaning of Rule 15c2-12 of the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, (“Rule 15c2-12”) except for certain information which is permitted under said Rule 15c2-12 to be omitted from the Preliminary Official Statement, but is subject to revision, amendment and completion in a final Official Statement. A copy of the Preliminary Official Statement will be furnished upon request to Harrell & Company Advisors, LLC, 333 City Boulevard West, Suite 1430, Orange, California 92868, telephone (714) 939-1464.

Upon the sale of the Bonds, the District will publish the final Official Statement in substantially the same form as the Preliminary Official Statement, subject to minor additions, deletions, and revisions as required to complete the Preliminary Official Statement. The District will furnish to the successful bidder within seven business days following the date of award, at no charge, any number of electronic copies and not in excess of 100 printed copies of the Official Statement for use in connection with any resale of the Bonds. The purchaser agrees to supply the District all pricing information necessary to complete the Official Statement within 24 hours after the award of the Bonds. Additional printed copies of the final Official Statement may be obtained at additional cost.

By making a bid for the Bonds, the purchaser agrees to (1) disseminate to all members of the underwriting syndicate copies of the final Official Statement, including any supplements prepared by the District, (2) promptly file a copy of the final Official Statement, including any supplements prepared by the District, with the Municipal Securities Rulemaking Board, and (3) take any and all other actions necessary to comply with applicable Securities and Exchange Commission rules and Municipal Securities Rulemaking Board rules governing the offerings sale and delivery of the Bonds and the Official Statement to ultimate purchasers.

Prospective bidders should review the form of opinion of Bond Counsel set forth in Appendix E to the Preliminary Official Statement.

DISCLOSURE CERTIFICATE: The District will deliver to the purchaser of the Bonds a certificate dated the date of Bond delivery, stating that as of the date thereof, except for information relating to DTC and CUSIP Numbers as to which no view is expressed, the Official Statement does not contain an untrue statement of a material fact or omit to state any material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading.

CONTINUING DISCLOSURE: In order to assist bidders in complying with Rule 15c2-12, the District will undertake, pursuant to a Continuing Disclosure Certificate, to provide annual reports and notices of certain events. A description of this undertaking is set forth in the Preliminary Official Statement and will also be set forth in the final Official Statement.

Dated: March 23, 2016



STRADLING YOCCA CARLSON & RAUTH, P.C.
660 NEWPORT CENTER DRIVE, SUITE 1600
NEWPORT BEACH, CA 92660-6422
SYCR.COM

NEWPORT BEACH
RENO
SACRAMENTO
ORANGE
SAN FRANCISCO
SANTA BARBARA
SANTA MONICA
SEATTLE

ROBERT J. WHALEN
949.725.4166
RWHALEN@SYCR.COM

March 16, 2016

Mr. Joseph R. Beachem
Chief Financial Officer
Otay Water District
2554 Sweetwater Springs Boulevard
Spring Valley, California 91978-2096

Re: *Otay Water District 2016 Water Revenue Refunding Bonds*

Dear Joe:

I have prepared this letter to assist you in your presentation to the Board of Directors (the "Board") of the Otay Water District (the "District") on March 23, 2016. In connection with the proposed issuance of the above-referenced bonds (the "Bonds"), the Board is to adopt a resolution approving the form of a Preliminary Official Statement for the Bonds.

This letter briefly describes the responsibility that Board members and members of the District management have under federal securities laws to review the Preliminary Official Statement. I would suggest that you provide a copy of this letter along with the draft of the Preliminary Official Statement to Board members prior to the March 23, 2016 Board meeting.

The Preliminary Official Statement is an important document for District officials to review and understand. This document discloses information with respect to the Bonds and the District's finances and operations and its ability to make debt service payments on the Bonds in a timely manner. The key sections regarding the District appear in the Preliminary Official Statement under the captions "OTAY WATER DISTRICT," "THE WATER SYSTEM," "LEGAL MATTERS--Litigation" and "CONCLUDING MATTERS—Continuing Disclosure."

The Securities and Exchange Commission in its Orange County Report (dealing with the effects of the Orange County bankruptcy on Orange County municipal securities offerings) underscored the obligations of public officials to review Preliminary Official Statement. In the report the SEC stated:

"In addition to the governmental entity issuing municipal securities, public officials of the issuer who have ultimate authority to approve the issuance of securities and related disclosure documents have responsibilities under the federal securities laws as well. In authorizing the issuance of securities and related

disclosure documents, a public official may not authorize disclosure that the official knows to be false; nor may a public official authorize disclosure while recklessly disregarding facts that indicate that there is a risk that the disclosure may be misleading. When, for example, a public official has knowledge of facts bringing into question the issuer's ability to repay these securities, it is reckless for that official to approve disclosure to investors without taking steps appropriate under the circumstances to prevent the dissemination of materially false or misleading information regarding those facts. In this matter, such steps could have included becoming familiar with the disclosure documents and questioning the issuer's officials, employees or other agents about the disclosure of those facts.”

The Chief of the Securities and Exchange Commission Office of Municipal Securities has commented on the importance of municipal issuers adhering to the recommendations of the Orange County Report. She stated as follows:

“It’s just not possible for issuers simply to rely on lawyers and underwriters to handle this. Public officials have a different perspective and a different knowledge base than members of the financing team. It is critically important that members of the governing body and other appropriate officials outside the financing team personally review the disclosure documents and speak up if they have questions.”

“Ten years after Orange County, it’s just no longer reasonable for issuer officials to expect the SEC and others to overlook such conduct.”

“I strongly urge you to institute internal controls and follow specified policies and procedures so that you can ensure your own disclosures are accurate and complete. This would include making sure that the appropriate government official has read the disclosure documents or questioned staff who has read them. It may also include having so-called due diligence meetings with disclosure counsel or underwriter’s counsel.”

“These steps frankly are long overdue.”

Pursuant to these obligations, it is important for officials of the District, including Board members, to review and understand the key portions of the Preliminary Official Statement relating to the District and its finances so that there will be no misleading information in the Preliminary Official Statement. The District should make use of its general counsel, accountants and staff, us as Bond Counsel and Disclosure Counsel, Harrell & Company Advisors, LLC, its municipal advisor, and other information sources to avoid having (i) any misleading information included in the Preliminary Official Statement, and (ii) any material information omitted from the Preliminary Official Statement.

Some of the questions that the Board members and District officials should ask themselves are:

Mr. Joseph R. Beachem
March 16, 2016
Page 3

1. Are there any statements about the District included in the Preliminary Official Statement that are not accurate or are misleading?
2. Is there any information about the District not included in the Preliminary Official Statement that would be important for an investor to know before purchasing the Bonds?
3. Is there any pending or threatened litigation against the District that could have a negative impact on the District's finances?
4. Does the District have financial obligations for post-employment retirement benefits that are not described in the Preliminary Official Statement and are the retirement benefits offered by the District accurately described in the Preliminary Official Statement?
5. Has the District been notified of any pending change to the rating on any of the District's outstanding debt?
6. Are there any ongoing IRS audits or SEC investigations involving the District or any other governmental investigation involving the District (grand jury, State or Regional Water Quality Control Boards, etc.) that should be disclosed?
7. Are there any circumstances that exist or that are now unfolding that could place a demand on District reserves or create budget difficulties for the District that are not described in the Preliminary Official Statement?
8. Does the section of the Preliminary Official Statement "CONCLUDING MATTERS—Continuing Disclosure" accurately describe all instances in which the District has not complied in all material respects with its prior undertakings?

If you or any other District official has any questions regarding this financing or the issues raised by this letter, please contact me at (949) 725-4166.

Very truly yours,

STRADLING YOCCA CARLSON & RAUTH



Robert J. Whalen

RJW:pm